Corporate Social Responsibility and Human Development: 
Towards a New Agenda and Beyond

Ananya Mukherjee Reed & Darryl Reed, 
International Secretariat for Human Development 
York University 
Toronto, 2004
A recent conference organized by the United Nations Research Institute on Social Development (UNRISD) had as its theme “Corporate Social Responsibility and Development: Towards a New Agenda?” In his opening remarks to the conference, the Deputy Director and CSR Research Co-ordinator at UNRISD, Peter Utting, argued for a more critical approach to CSR, one that not only took into account the priorities of developing countries, but was rooted in an account of “the structural and policy determinants of underdevelopment, inequality and poverty, and the relationship of TNCs to these.” (2003: 7) Several presenters at the conference went beyond arguing about the form of a new CSR agenda, however, to advocate the need for a corporate accountability (CA) agenda. CA moves beyond CSR in that it contends that corporations should not be free to set their own standards or choose to follow recommended standards in key areas. Rather, there should be legal mechanisms in operation that compel them to live up to socially determined standards.

Drawing upon these themes, this paper investigates the following questions: 1) what a new CSR agenda – one based upon a more critical understanding of CSR – should entail; 2) whether and why there may be a need to go beyond a new CSR agenda, and; 3) how much beyond CSR we may need to go. Underlying these questions is a not only doubt about the effectiveness of CSR programs, but a concern that CSR may function to detract attention from or even legitimate other corporate practices that can adversely affect development. Answers to these questions presuppose some normative account of what development should be and a social scientific (and, in particular, a political economy) account of the relationship between corporate activities and the structural causes of inequality and poverty in the Global South.

In investigating these questions, we first distinguish three different conceptions of (human) development. Next we go on to give an account of the uncritical nature of mainstream approaches to CSR, and criteria for developing a more critical approach. In the third section, we illustrate what a new CRS agenda might look like, as well as indicating how a CA agenda would move beyond this. Finally, by way of conclusion, we examine how the three different conceptions of (human) development relate to the question of whether there is a need to merely adopt a new CSR agenda or to move beyond CSR.

What is Development?

Even if companies were to implement codes of conduct, improve their (environmental management systems (EMS) and working conditions, and report on their environmental and social performance, would this make much of a difference in terms of development in the global South? Would it constitute a significant step in creating an enabling environment for development? (Utting, 2003: 7)

Any inquiry into the potential role of CSR in promoting development must first raise the logically prior question of what development it. Here it may be useful to begin with a distinction between two visions of development: modernization and human development. The primary objective of modernization is the establishment of an
industrial economy and the expansion of its productive capacity. In most parts of the developing world, modernization projects have typically resulted in extreme unevenness, with a modern, technologically advanced core corporate economy co-existing with a vast non-corporate periphery. While East Asia remains an exception to this pattern of uneven development, modernization there did not come without significant political, environmental and human costs. The critique of this paradigm is well-known, and constitutes the basis of the human development paradigm.

As distinct from modernization, human development focuses on people rather than production. It is concerned primarily with the reduction of human deprivation, the creation of human capabilities and unleashing “processes that enlarge people’s choices” (UNDP, Human Development Reports, various years; HDR hereafter). It rejects the priorities of modernization and seeks to redefine development from a human-centered perspective. There are at least three distinct notions of human development that need to be distinguished (Mukherjee Reed, forthcoming).

First, Amartya Sen (1999) and others have conceptualized human development as the enhancement of capability and freedom (the “capability approach”). (Haq, 1997; Nussbaum, 2000) Situated within a liberal normative framework, its core ideas are: universalism; a liberal and pluralist notion of the state; the priority of individual freedoms; formal (as opposed to substantive) equality; emphasis on individual agency; and a vision of (regulated) capitalism as a context in which opportunity and freedom is generated and human agency thrives. It focuses on capabilities, i.e., what “people are actually able to do or be,” rather than on the amount of resources at their command. As Sen has argued, the most important guarantor of capability is freedom; thus freedom should be considered as both the ends and means of development. The task of social change thus consists primarily in eradicating all institutional constraints on freedom.

The capability approach, while critical of modernization, sees a clear role for the market in bringing about development (defined as capability and freedom), as long as it is supplemented by social opportunities. Such social opportunity, comprised primarily of access to basic literacy and healthcare, is to be created by the state and international organizations. This approach does not explore in any substantive sense the nature of the corporate economy, the relationship between state and capital and how they interact to impose constraints on human development. Nor does it specifically address CSR.

Second, human development has also been conceived as protection of the poorest and the most vulnerable from the negative consequences of economic growth (the “human face” approach). First formulated in the seminal volume Adjustment with a Human Face, the main proponents of this approach are Francis Stewart, Richard Jolly and Andrea Cornia (Cornia et al, 1987). This approach originated as a direct critique of structural adjustment, and documented the devastation caused by these policies on human lives. Its main focus is on the issue of inequality. It advocates an alternative strategy that combines the promotion of economic growth, protection of the vulnerable and macro-economic adjustment (HDR, 1999).

In comparison to the capability approach, the human face approach is more explicit on the role of CSR. As it focuses on the global political economy, it is directly concerned with the behaviour of TNCs and their impact on human development. The HDR 1999, for instance, calls for the development of a global code of conduct for multinational corporations—and a global forum for their monitoring. It suggests that,
“multinational corporations need to be brought within the frame of global governance, not just the patchwork of national laws, rules and regulations” (HDR 1999: 100).

Third, human development can also be conceptualized as the redistribution of social power (the “social power” approach). There exists a wide diversity of authors who view human development in this way (Bennholdt-Thomsen & Mies, 1999; Ekins and Max-Neef, 1992; Max-Neef, 1989). Many of the environmental critiques of development reflect a social power approach. The most important reflections of the social power perspective, however, can be seen in key social movements in the Global South, e.g., the Naya Krishi Andolan (New Agricultural Movement) in Bangladesh; the Ogoni movement in Nigeria, the fair trade movement, the water wars in Bolivia and India, to name a few. As distinct from the other two approaches, this view (and the social movements which embody it) is premised on an explicit critique of modernization and capitalism. It emphasizes, *inter alia*: substantive rather than formal equality; the centrality of the environment as a realm of struggle over development; sustainability as an indispensable dimension of development; the need for alternative forms of social and economic organisation; local and autonomous development; and, solidarity rather than individual agency.

Underlying the difference in the normative vision of this approach is a more pessimistic prognosis on the ability of the corporate economy to generate growth and employment. Specifically, there is a rejection of the modernist presumption that the industrial economy will continuously expand and come to include progressively larger sections of society. Rather, it holds that, given the specific nature of corporate profit strategies, southern economies are likely to remain bifurcated, with core “formal” economies operating largely in isolation from the “informal” and subsistence economy

In the concluding section, we will return to these three models and discuss their relationship to a new CSR agenda.

**The Critique of Mainstream Approaches to CSR**

A preliminary survey of the the mainstream CSR agenda reveals that has tended to focus on fairly narrow aspects of social and sustainable development and has ignored some of the basic development issues to do with corporate size, power and influence; the negative effects of labour market flexibilization and economic liberalization; unsustainable investment and consumption patterns; and perverse fiscal and pricing patterns. (Utting, 2003: 8)

As a formal concept CSR (broadly understood) holds that corporations may have responsibilities to go beyond legally-required measures in order to ensure that the (social, political, environmental and economic) impact of their practices and policies conforms with justifiable norms. This formal understanding of CSR allows for a wide range of more substantial conceptions that can entail a variety of areas and levels of obligations on the part of corporations. The areas of obligation most frequently identified include:

1) local communities;
2) the environment;
3) labour rights and standards;
4) other business practices (e.g., marketing, finance, etc.), and;
5) the political realm.

In each of these areas, the understanding of the responsibilities of corporations may vary from the most minimal to very extensive.

The basic concerns underlying the call for a new CSR agenda are that an uncritical approach to CSR has, at best, been only marginally effective in facilitating development and, at worst, has served to legitimize other corporate practices and interests that are detrimental to development efforts. Mainstream approaches to CSR have been uncritical in at least four major ways.

First, mainstream accounts tend to restrict their understandings of CSR to responsibilities to local communities and living up to appropriate labour and environmental standards. Notably absent from most accounts are the responsibilities that corporations have with respect to their other business activities and the political realm (including corporate influence of public policy). Of particular concern here is the whole issue of corporate profit strategies. Neo-classical economic theory tells us that corporations (under conditions of ideal markets) can only generate (short-term) profits on the basis of innovation (and this serves the interests of society as a whole). In practice, however, ideal market conditions to not exist and corporations can, and do, seek to generate profits in a variety of other ways (e.g., speculation, exploiting market imperfections, state patronage, etc.). While such corporate practices may adversely affect society to a significant degree – especially in developing countries, it could be argued – mainstream notions do not include the issue of generating profits in such dubious manners in CSR (Reed, 2002). The basic implication here is that CSR will only be successful if it is open to examining the full range of corporate activities and how they impact development.

Second, mainstream notions of CSR do not adequately ground their criteria for determining corporate responsibilities. Much of the mainstream literature on CSR elaborates norms in a very ad hoc manner, proposing a variety of principles and/or values with little or no justification beyond common sense. There are more sophisticated versions that do draw upon ethical theories, but even here there are frequently problems with respect to political responsibilities. Most accounts of CSR do not draw upon normative political theory to elaborate the political responsibilities of corporations. Rather, they either ignore the question entirely or appeal to individual principles and (human) rights. Moreover, those that do appeal to normative political theory, typically rely upon traditions (e.g., contract theory) that do not adequately problematize the structural power of corporations and how this affects the political process (Reed, 2002). The basic lesson here is that CSR must draw upon normative frameworks that problematize the structural power of capital and its ability to influence the political process.

Third, mainstream approaches to CSR do not adequately incorporate critical political economy analysis. More specifically, they do not: a) draw upon such traditions as systems theory to understand how systems logic leads corporations to use CSR in strategic ways; b) nor do they problematize the conditions under which this logic can be constrained (e.g., by supportive legislation, more diversified decision-making structures, increased stakeholder participation, etc.). It is system logic that leads corporations to
undertake CSR programs with strategic intent, both at the level of their specific interests (by tying them into marketing and public relations activities) and more generally as a legitimization strategy in support of programs of deregulation and economic liberalization. The basic lesson here is that if CSR is to be effective it must confront systems logic. This requires restrictions on corporate control over CSR programs and increased participation in decision-making by stakeholder groups.

Fourth, mainstream accounts of CSR do not adequately problematize the specific context of developing countries and how this affects corporate responsibilities. One, if not the, key aspect of the development context is the tendency for legal, administrative and political institutions to be deficient in the development, implementation and enforcement of appropriate standards. There are two basic issues that relate to this situation. On the one hand, mainstream accounts of CSR fail to adequately conceptualize how such institutional failures can place increased demands on TNCs. Reed (2002) has argued, for example, that in situations where responsible agents (e.g., governments) fail to take up their responsibilities, this may place increasing responsibilities on TNCs. While this is acknowledged in relationship to some areas (e.g., labour and environmental standards), it could be argued that these responsibilities are much more extensive (and much more profound) than mainstream approaches appreciate. On the other hand, mainstream approaches to CSR have failed to problematize what type of issues that should be the responsibility of corporations to decide and which should not. For example, the mainstream CSR movement advocates a voluntary approach to environmental regulation. That is to say, it believes that it should be at the discretion of corporations to set and monitor standards and that these standards should not be enforceable through the legal system. A more critical approach, which problematizes the interests of corporations in such a situation, would argue that issues such as minimal environmental standards should only be conceived of as issues of CSR under the conditions of institutional failure. Under these conditions, corporations have a responsibility to establish rules, but only on a temporary basis until other more legitimate arrangements can be developed. The basic lessons here are that many issues of CSR should move beyond the realm of CSR by being incorporated into a legal framework and that corporations should support such moves to a CA agenda rather than oppose them.

Towards a New CSR Agenda and Beyond

A new, critical CSR agenda must be guided by a vision of development and rooted in political economy analysis and normative political theory. Our discussion above indicates that such an agenda will be characterized by: 1) attention to a full range of corporate activities; 2) restrictions on corporate control over CSR activities and increased stakeholder participation, and; 3) efforts to look beyond CSR to a CA agenda. We can briefly illustrate the nature of such a CSR agenda and how a CA agenda moves beyond it.

Regulation – An effective CSR approach to regulation in such areas as labour and environmental standards cannot be dominated by corporations (either directly or through industry-wide bodies or NGO front organizations). Nor can it be limited to management systems, without strict standards and independent monitoring and sanctions. The “no sweat” movement provides some examples of what effective CSR regulation
requires. Anti-sweatshop NGOs such as the Workers’ Rights Consortium (WRC) have been able to set standards independently of corporations, establish independent monitoring and incorporate sanctions (in the form of the threat of decertification). This regulatory process remains within the realm of CSR insofar as corporations are free to seek certification from bodies such as WRC or not. A truly critical approach to CSR, however, would argue that establishing minimal labour and environmental standards are ultimately the responsibility of the state and that CSR initiatives ultimately must lead to CA efforts to ground such standard in law (Singh and Zammit, 2004). An example of such a result is the European Union’s “Framework for Corporate Social Responsibility.” Passed in 2002, this legislation established legal jurisdiction against European companies' abuses in developing countries.

**Profit strategies** – Mainstream CSR only addresses the issue of corporate profits tangentially, by seeking to limit the ability of corporations to cut costs in inappropriate ways (e.g., by not living up to justifiable labour and environmental standards). A critical CSR approach needs to address the issue of corporate profit strategies, but it is difficult to imagine what leverage they can have in effectively promoting such an agenda. Ultimately, CSR efforts need to give way to legal sanctions that are designed to inhibit the pursuit of profits through non-socially beneficial means. The Tobin-tax proposal represents one effort in this direction. By imposing a tax of foreign currency exchanges, it seeks to limit the ability of corporations to “earn” profits through speculation. Another method that addresses this problem is Agit Singh’s proposal for the formation of an International Competition Board.

**Governance** – The propensity of corporations to operate on the basis of system logic is only likely to be checked if a greater range of societal interests can be brought into play in at the highest levels of corporate decision-making, the board of directors. A number of proposals to diversify boards have been advocated in the mainstream corporate governance literature. These involve not increasing representation by women and minorities, but representation by nationals on TNC subsidiaries operating in developing countries. Beyond this, consumer advocates such as Ralph Nadar have long advocated that boards should have outside representation from consumer and related interest groups. The notion here is that broader interest representation will not only allow more concerns to be represented, but generate more creative solutions to reconciling corporate interests and those of stakeholders. Critical political economy analysis will raise significant concerns about the effectiveness of such a CSR approach, however, while critical normative political theory will argue that (some) stakeholder should have representation on the board of directors as a right, not as a privilege granted by corporations. On both these bases, one could argue that the CSR agenda ultimately needs to be eclipsed by a change in corporate governance structures that grant key stakeholders a significant presence on the board (such as the inclusion of labour representation under German corporate law).

**Political responsibilities** – Corporations have political responsibilities to ensure that their interactions with states conform norms of political democracy. A new CSR agenda must take up these responsibilities and encourage corporations not to exercise their structural power in the political realm to advance their own interests. Groups like Transparency International seek to promote such an agenda by encouraging governments and corporations to agree on measures (e.g., “integrity pacts”) to promote transparency in
such areas as bidding on government contracts. A critical CSR perspective, however, would be led to conclude that what living up to norms of political democracy entails should be encoded in and enforceable by law, thus moving into a CA agenda. Examples of this would include anti-bribery legislation (such as the US Foreign Corrupt Practices Act) and efforts to introduce disclosure legislation that requires corporations (most notably those operating in resource sectors) to publish what they pay to foreign governments (http://www.publishwhatyoupay.org/index.html, accessed May 21, 2004).

Conclusion

As noted at the outset, there is an emerging consensus for the need for a new CSR agenda that is rooted in a political economy analysis of the relationship between corporations and development. While the three different conceptions of human development outlined above share in this consensus for a new CSR agenda, they offer different accounts of the relationship between corporations and development. The capability approach focuses on the failure of states and the need to create social opportunities that allow people to engage more productively within a market framework. It expresses strong faith in the market as an institution that facilitates freedom of exchange. It fails to acknowledge, however, how corporations exercises structural power to systematically distort the functioning of markets. It is unclear as to how far it will be able to accommodate restrictions on corporate power that go beyond the standard liberal approaches to regulation. The human face approach addresses the question of corporate power more directly, with a specific focus on TNCs. It sees unrestricted corporate activity as a clear impediment to human development and calls for new institutions to address the unresolved problems arising out of globalization. However, it stops short of developing a full critique of corporate power. The social power approach offers the fullest critique of the structural power of corporations, and the broader logic of capitalism from which such power emanates. This approach is particularly concerned about the self-reinforcing relationship between the ability of corporations to exert political influence on the basis of their economic power and their ability to generate profits on the basis of state patronage, market imperfections and other dubious means.

These divergent analyses lead to different understandings of CSR and its role in development. From a capability perspective, which is wary about the state being too involved in limiting freedom by intervening in markets, a CSR approach may go far enough. Strategically, faith in the disciplinary power of markets also may make it unnecessary to move beyond the voluntary arrangements CSR implies. The human face approach, advocating as it does, stronger global controls on TNCs, is more compatible with a movement beyond CSR to a CA agenda. For its part, the social power perspective also emphasizes the need to hold corporations accountable through legal means. It is more pessimistic about the prospects for this, however, given the ability of the corporations to exert influence over the political realm on the basis of their structural power. Not surprisingly then, this perspective sees a need to move beyond both CSR and CA, to foster the creation of countervailing power. This entails the promotion of alternative economic arrangements controlled by local communities and oriented towards the interests of these communities. The key point here, however, is that the quest for alternatives economic arrangements is not only desirable on specific normative grounds (e.g., a preference for greater autonomy in the workplace, etc.), but also necessary for two strategic reasons. First, the corporate-led model of development
systematically excludes local communities from the corporate economy; hence local communities need alternative material bases for sustaining their livelihoods. Second, such alternatives also provide the basis from which resistance to corporate power can emerge, giving rise eventually to forms of countervailing social power. In the absence of such countervailing power, it is likely that corporate interests will continue to function in ways which inhibit human development.

References