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Is CSR just Corporates Saying the Right things?

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'The best way to improve business development impact is to create mechanisms that reward businesses financially for increasing their contribution to development'

Despite the focus on the role of aid in promoting development, it is business that drives the economic growth needed in developing countries. Businesses create jobs and wealth, and competition stimulates the investment, innovation and technological progress that underpins economic growth.

The Private Sector Declaration on the Millennium Development Goals (MDGs) recognises the vital role of business in development. The Declaration was signed in July 2007 by 21 business leaders, who pledged to work with other stakeholders to achieve the MDGs. It set in motion a process that increases pressure on business to strengthen its contribution to development.

But businesses – particularly multinationals operating in the developing world – are often criticised for exploiting workers, polluting the environment, and extracting resources without adequately sharing with their developing country hosts the wealth that is generated.

This criticism has led to huge growth in Corporate Social Responsibility (CSR) initiatives, as companies seek to manage the risks to their reputation. These range from charitable giving, to support for local communities by building schools or clinics for example, or to more overarching commitments to better behaviour by signing the UN Global Compact or other labour or environmental standards.

However, such initiatives are relatively limited in scope compared to what could be achieved if companies improved the development impact of their core business. Research by ODI suggests that the cost of complying with ethical standards is often passed down the supply chain to developing country producers, rather than being borne by the instigating companies. We need to look beyond ethics if companies are to make a lasting contribution to development.

Some firms are beginning to examine all their activities to assess their development impact, generating evidence of their contribution to development. But an honest review should also identify any potential negative impacts, and areas where improvement is needed.

In many cases, it may be that operating in a more development-friendly way will increase costs; for example by increasing the use of local rather than imported materials, or by training up local staff rather than bringing in existing employees from another country. So we need more than CSR if businesses are to bear the costs of improving their development impact – we need to find ways to reward them financially, and improve their profitability.

The huge growth in ethical investment and shopping shows the potential power of investors and consumers to reward companies that improve their development impact. We need to harness this power to create stronger incentives for ongoing improvement within companies,that does not rely on their charity, but contributes to their profitability.

Measuring impact

First, businesses need to conduct more robust assessments of their development impact. Some have already started – see for example Unilever's recent report on its economic footprint in South Africa (Unilever 2008). ODI has developed a framework to assess the development impact of business in the oil and gas sectors, that could be adapted for other sectors, and there is a range of other methodologies available. Impact assessments should examine performance on a range of issues, such as:

- Use of local inputs;
- Linkages with local businesses;
- Employment and training of the local labour force;
- Reinvested earnings;
- Investment in local infrastructure;
- Performance against existing labour and environmental standards;
- Payment of taxes and transparency in revenue flows;
- Technology transfer; and
- Contributions to the local community and charitable giving.

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But assessing impact is complicated, and more needs to be done to develop robust but realistic methodologies. Indeed, there is a growing appetite for this from the business community.

Establishing benchmark indicators

Next, an agreed set of benchmark indicators needs to be established, based on the results of impact assessments, so companies can measure, and report in a comparable way on their development performance. Points could be awarded against a set of criteria (such as those listed above) to give an overall score, perhaps using performance bands such as gold, silver and bronze.

It would be similar in approach to Business in the Community's Corporate Responsibility Index, which assesses how corporate strategy is integrated into business practice, providing a benchmark against which companies can evaluate their economic and social performance. However, it would have a stronger focus on economic impacts in the developing world.

It could also build on existing approaches like the Global Reporting Initiative (GRI), which provides sustainability reporting guidelines and a set of indicators of economic impact.

Sharing information

Suitable vehicles are needed to publicise these indicators in a clear and easily comparable way, so that investors and consumers can make informed choices. Information on companies' relative development performance should be reported in one place, for easy reference by ethical investors when making funding decisions.

For businesses that produce consumer goods, such information could be captured in the proposed Good for Development product label (ODI Opinion no. 88, Ellis and Warner, 2007). A gold, silver or bronze "Good for Development" label could be awarded, depending on overall performance as measured by the benchmark indicators.

While this would, inevitably, produce a simplified, aggregated measure of development impact, it would enable consumers to compare at a glance the broad development impact of competing products, at the point of purchase, without having to undertake any research themselves. It could therefore, boost sales for companies making the greatest efforts to improve their development contribution, improving their profitability as well as their reputation, and helping to offset any associated costs.

By turning development performance into financial returns, such a scheme could encourage companies to invest more time and resources in genuine improvements in their development impact. This is the point where business development performance moves beyond corporate social responsibility to become corporate self interest – a far more powerful motivating force.

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