The Politics of Poverty Reduction

Section Three

The success of strategies to reduce poverty and inequality hinges on shifts in the relationships and exercise of power. In recent decades, economic liberalization, democratization and changes in governance have profoundly altered the relative power and influence of key actors within the state, business and civil society. This section shows why patterns of development that are conducive to poverty reduction require a regulatory and political context characterized by effective state institutions, social pacts, democratic governance and active citizenship.

The presence, responsibilities and authority of organized business interests have increased considerably in areas such as regulation and social policy. This enhanced role for business has occurred to a large extent through corporate social responsibility, private regulation and public-private partnerships. Such approaches, however, are found wanting from the perspective of inclusive development and democratic governance. They often ignore key institutional and political conditions conducive to corporate accountability and the constructive engagement of business actors in public policy. These conditions include social pacts that encourage business to support social policies; strong state capacities in areas such as labour regulation; appropriate norms and laws governing the participation of private interests in public governance; and institutional mechanisms and forms of collective action for holding corporations accountable and facilitating redress.

State capacity is crucial for business regulation as well as for the types of structural change and transformative social policy discussed in previous sections. Strong capacity is associated with enhanced policy space and political legitimacy, reducing the likelihood of government capture by powerful groups. Such capacity facilitates the enforcement of rules, and the mobilization and allocation of resources for development purposes. While authoritarian developmental regimes have been able to reduce poverty, it has often come at the cost of suppressing civil rights. Democratic developmental states have been equally successful in reducing poverty where they have had a broad power base, a coherent bureaucracy, healthy public engagement, and various commitments and compromises by business. The contemporary focus on good governance and new public management, however, often ignores such conditions.

Successful poverty reduction requires both that governing elites are committed to changing power structures in favour of the poor, and that citizens engage in policy-making processes. Allocative and enforcement capacities, for example, can be improved through citizen participation in monitoring development agents and service providers. Democracies deliver outcomes that are beneficial to the poor when groups with strong ties to the poor demonstrate the capacity for organization and mobilization, transcend or reconcile ethnic, regional and other divisions, and create links with actors involved in policy making. Electoral processes that can vote parties in and out of office can be conducive to redistribution and progressive reforms, but sustaining such outcomes requires effective group organization and contestation. Agency and representation remain key issues in development politics. Poverty reduction is ultimately a question of political power and active citizenship.

CHAPTER 9

Business, Power and Poverty Reduction

As the role of the state in key aspects of social policy and labour market regulation has declined, that of business has increased. Pro-market ideology and strategies in recent decades have generated fundamental changes in relations among state, society and business actors. Economic, regulatory and governance trends that have characterized globalization and liberalization have not only expanded commercial opportunities for business enterprises; they have also drawn them more directly into the arenas of social policy and poverty reduction. This is particularly apparent in four areas: the role of business in the privatization of social services, discussed in chapter 6; the adoption of corporate social responsibility (CSR) principles and practices; new roles for business organizations in standard setting and other aspects of business regulation; and the participation of transnational corporations (TNCs) and business associations in processes of global governance and public policy.

These changes contrast with the traditional role of business in social development. In countries where poverty was reduced in relatively short periods of time, this role could vary significantly but often featured employment generation, tax payments, philanthropy, corporate social welfare and insurance obligations, and implicit support for social policy or a welfare state model.

Today's world is quite different. The number of TNCs has vastly increased, as has their economic power through foreign direct investment (FDI) and global value chains. Moreover, corporate tax rates have declined sharply over the past two decades, the percentage of workers covered by company health plans has decreased in many countries, and social pacts that aligned business interests with a welfare state model have weakened. At the same time, international initiatives to control company behaviour through harder regulations have ceded ground to efforts to engage the private sector far more directly and proactively in national and international strategies to raise social and environmental standards and reduce poverty. More and more companies are associating themselves with the Millennium Development Goals (MDGs), participating in public-private partnerships concerned with the provision of basic services, adopting voluntary initiatives associated with an expanding CSR agenda, and targeting the world's poor in their investment, production and marketing strategies. However, whether or not such approaches enhance corporate accountability and promote inclusive development remains an open question.

How business relates to poverty and poverty reduction is complex. Business activities both cause and alleviate poverty, and poverty generates both costs and benefits for business. These diverse relationships give rise to varied and often polarized views regarding the new roles that business actors are assuming in the social and public arenas. Are such roles effective from the perspective of inclusive development? Do they do more to legitimize business-as-usual than enhance well-being? Can organized business interests play a constructive role in democratic governance, and if so, under what conditions? This chapter addresses these questions, paying particular attention to how transnational corporations and business associations facilitate or constrain poverty reduction via their relationship to public policy and more direct interventions associated with CSR and private standard setting. It draws three main conclusions.

- The movement towards corporate responsibility has heightened awareness of how business impacts development and human rights. But there are major shortcomings in regulatory and commercial approaches that aim to enhance the social and environmental performance of business through corporate self-regulation, voluntary initiatives and inclusive business models.

- Far greater attention must be paid to corporate accountability, which obliges corporations to systematically address stakeholder concerns; imposes some form of penalty on non-compliant firms; and enables workers, smallholders, indigenous peoples and others whose livelihoods and rights have been negatively affected by business activities to channel grievances and seek redress.
- The key challenge is to reassert social control over markets and large corporations via various institutional arrangements and the reconfiguration of power relations. Among other things, this requires new ways of linking CSR and private regulation with public policy and law; a strengthening of state regulatory and inspection capacity; attention to conflicts of interest and responsible lobbying; complaints procedures; an active role for civil society in advocacy and social dialogue; and broad-based domestic business associations and coalitions for progressive social change. It will also demand an international CSR agenda that does not shy away from sensitive issues such as labour rights, corporate lobbying, tax evasion and avoidance, as well as the social and developmental effects of the concentration of economic power in global corporations.

Section 1 of the chapter examines the effectiveness of recent developments in business practices and international development policy that aim to engage business more proactively in social development and poverty reduction. The remaining sections examine different dimensions of business power and influence, with a view to understanding when business is likely to play a constructive role in crafting models conducive to inclusive development.

Section 2 looks at the changing nature of state-business relations.

Section 3 examines the countervailing forces and social pressures associated with civil society and subaltern groups.

Section 4 explores variations in the preferences of different types of firms and industries.

Section 5 analyses the role of various types of collaborative institutions.

In conclusion, section 6 highlights key policy implications of encouraging greater corporate accountability.

1. The Rhetoric and Reality of Corporate Responsibility

In the 1980s and 1990s, the rise of FDI and industrial restructuring centred on subcontracting, and the lengthening of supply chains, rapidly expanded the presence and influence of TNCs in developing countries. Although concentrated in relatively few countries, FDI in developing countries increased from $7.7 billion in 1980 to over $500 billion in 2007, constituting 27 per cent of global inflows.[1]

The social agenda of business is expanding

In response to mounting concern that globalization and neoliberal policies were generating heavy social costs, and that TNCs were exacerbating the problem of global injustice, a worldwide movement emerged that called on firms to become more socially responsible.[2] CSR embraces the notion that businesses need to consider not only the economic ramifications of their activities, but also their social and environmental performance and impacts, wherever they operate in the world. The movement also called for more constructive engagement with stakeholders (groups that affect or are affected by business activities). CSR has thus become an umbrella term that refers to an ever-widening agenda of voluntary initiatives and various forms of private regulation in which non-state actors play a key role in setting standards related to the workplace, the environment and human rights, and promoting or overseeing their implementation. CSR initiatives typically relate to working conditions, eco-efficiency, community support and anti-corruption. And CSR instruments include codes of conduct, reporting and disclosure, monitoring, certification and stakeholder dialogues.

In recent years, the CSR agenda has broadened, moving beyond TNC affiliates to their supply chains, beyond production-based TNCs to the financial services industry, and beyond environment, labour and community issues, to other dimensions of human rights. It has also embraced new business models that engage communities and the poor in commercial activities, as well as myriad forms of public-private partnerships (see box 9.1).

BOX 9.1: Engaging business in international efforts to reduce poverty

The idea that business in general and TNCs in particular should engage proactively in poverty reduction has been widely supported by bilateral and international development agencies. Prominent within this agenda are initiatives and approaches aimed at improving the market climate for the poor; promoting inclusive business models; and mobilizing additional resources for poverty reduction through philanthropy and partnerships.

Improving the market climate for the poor involves responding to conditions that lead to market failures. These can be related to property rights, corruption, regulation, information, infrastructure and bargaining power.[a] Devising inclusive business strategies has two main objectives: first, building new markets that offer products and services adapted to the situation of the poor and that generate income and employment – for example, providing nutritionally rich yoghurt distributed through community networks. And, second, improving existing markets by offering better opportunities to entrepreneurs in supply chains and enhancing linkages between companies and local producers.[b] Within such strategies, considerable attention has been focused on the potential of the "bottom of the pyramid" approach, which aims to integrate the poor and the informal sector into the formal economy and value chains as consumers, producers or employees. According to some estimates, the bottom of the pyramid comprises four billion people.[c]

Although there is a growing body of best practice examples, the assumption that business can actively promote poverty reduction and pursue profits through such models is questionable. It runs the risk of ignoring several realities, including:

- **the limitations posed by the lack of income among the poor. This means that inclusive business strategies will most likely connect only with those at the top of the poverty pyramid;**
- **the constraints imposed on businesses by the environment in which they operate. This limits the extent to which they can pursue strategies that do not generate high short-term profit projections (see section 2 of this chapter);**
- **inclusive business models that tend to focus more on engaging the poor as consumers rather than as producers; and**
- **market-oriented solutions that often ignore the key role of social, redistributive and labour market policies in poverty reduction.**

More recently the idea of multinational social business has attracted attention. Defined as a non-loss, non-dividend company dedicated to achieving a social goal, this type of enterprise upholds the importance of profitability but uses surplus to expand operations while investors may only recoup what they put in.[d] As in the case of the Grameen-Danone Foods joint venture in Bangladesh, such initiatives currently tend to be highly dependent on the idiosyncrasies of individual entrepreneurs. The absence of an enabling institutional environment raises considerable doubt about the extent to which they can be replicated on a significant scale.[e]

The role of business in social development has been further enhanced by international efforts to cultivate new sources of financing for development. The private sector is being courted as a key source of financing for the MDGs.[f] Philanthropic foundations, such as the Bill and Melinda Gates Foundation, the Clinton Global Initiative, and public-private partnerships such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Global Alliance for Vaccines and Immunization are mobilizing and channelling private sector funding to various fields of social development.[g] Such initiatives have mobilized significant resources and resulted in many tangible benefits, particularly in fields related to health, agriculture and microfinance. But they also raise serious questions about the fragmentation of health systems, stress on national capacities, conflicts of interest and the influence of private actors in public governance, as well as the sustainability of such funding sources – not least in the context of the global economic crisis.[h]

Notes: [a] World Bank 2001d. [b] UNDP 2004; IFC 2007; UNDP 2008a. [c] Prahalad 2004. [d] Yunus 2007. [e] Zanfei 2010. [f] Atkinson 2005. [g] Kaul and Conceição 2006. [h] Richter 2004; Utting and Zammit 2006; TERG 2009.

Consequently, businesses are increasingly expected to move beyond their conventional role and engage with social and sustainable development objectives as part of their core strategies. CSR is often held up as a third way between heavy-handed government regulation and a market-oriented approach to development that marginalizes social concerns. From the perspective of poverty reduction and inclusive development, how constructive an approach is CSR?

This question has generated much heated debate among those who lean towards the view that firms should not be distracted from their central focus on profit maximization and responsibilities to shareholders; that smart companies must manage risk and reputation; that their license to operate implies being responsive to societal concerns and proactive in good governance; and that CSR and public-private partnerships tend to legitimize big business and facilitate institutional capture. Such diverse views partly reflect the multiple ways in which business relates to poverty and poverty reduction (see box 9.2).

Assessments of CSR reveal major shortcomings

The scope and substance of CSR have developed considerably in recent years. Over 5,000 businesses, including one-third of the Fortune 500 companies, participated in the world's largest CSR initiative – the UN Global Compact – in 2009. Business-oriented non-governmental organizations (NGOs) have mobilized considerable company support for CSR in numerous countries. By mid-2009, for example, nearly 1,400 companies were members of Instituto Ethos in Brazil, and 300 companies belonged to an organization called Philippines Business for Social Progress. The business universe, however, is vast. Transnational corporations alone number 82,000, and their 810,000 affiliates source from millions of suppliers.[3] As can be seen in table 9.1, the number of enterprises participating in some of the high-profile international and sectoral CSR initiatives still represents a small fraction of this universe.

BOX 9.2: Business, poverty and poverty reduction – A complex relationship

How business relates to poverty and poverty reduction is complex. In some circumstances, business activities and the power of certain business interests can be seen as cause of poverty. Power asymmetries in trade relations, competitive pressures in global value chains and skewed business-labour relations, for example, can result in small agricultural producers and low-skilled workers receiving prices or wages that fuel absolute or relative poverty and indecent work. The benign-sounding term externalities is used to refer to the fact that economic activities can have spillover effects on third parties that are not compensated. But such language can mask the human consequences of situations where oil, mining, agribusiness and many other business activities pollute the environment, damage people's health and dislocate livelihoods and communities. Tax avoidance and evasion deprive governments of the revenues needed for social and other expenditures associated with poverty reduction, while bribery and lobbying can undermine governance for the public good.

Business itself may be negatively affected by poverty, when, for example, poverty reduces the size of consumer markets, diminishes the pool of healthy and educated workers, or undermines the stability of a particular country or region. Business can also be a fundamental part of the solution to poverty by generating employment, lowering prices through competition, facilitating access to basic goods and services, and stimulating economic activity through linkages with micro- and small enterprises. It can promote corporate social welfare and social responsibility, engage in philanthropy, support progressive social policies and provide much needed expertise, taxes and royalties to governments.[a]

Note: [a] Blowfield 2008, 2010.

TABLE 9.1: Business participation in selected initiatives promoting CSR, 2009

Multistakeholder initiative	Number of participating entities
ISO 14001 Certification[a]	188,815
Global Reporting Initiative (GRI)[b]	1,368
United Nations Global Compact[c]	5,135
Forest Stewardship Council[d]	13,500
Marine Stewardship Council[e]	51
Partnerships for Sustainable Development[f]	867
SA 8000[g]	1,942
Fair Labor Association (FLA)	
Participating companies[h]	30
Accredited companies[i]	11
Ethical Trading Initiative (ETI)	53
Principles for Responsible Investment	
Asset owners	183
Investment managers[j]	286
Extractive Industries Transparency Initiative (EITI)[k]	42

Notes: [a] Certificates issued by December 2008, some of which relate to non-business entities (data accessed on 5 January 2010). [b] Number of organizations that issued reports based on GRI guidelines in 2009 (data accessed on 30 May 2010). [c] Number of participating businesses, of which 937 are non-communicating and 166 are in the Fortune Global 500 list of largest global corporations (data accessed on 28 August 2009). [d] Number of certificates held by companies in 2008 (data accessed on 28 August 2009). [e] Certified fisheries (data accessed on 28 August 2009). [f] Number of partners from business and industry in partnerships registered with the UN Commission on Sustainable Development (data accessed on 28 August 2009). [g] Certified facilities as of 31 March 2009 (data accessed on 28 August 2009). [h] Participating companies that commit to implement FLA Standards in factories throughout their supply chains (data accessed on 28 August 2009). [i] Accreditation implies that a participating company's workplace standards programme is substantially in compliance with the FLA Code following an assessment at the end of the implementation period [j] Data accessed on 28 August 2009. [k] Companies that support and actively participate in the EITI process (data accessed on 28 August 2009). Source: Official website of each initiative.

While thousands of enterprises participate in CSR initiatives, this represents a small fraction of the business universe

Despite the increasing popularity of CSR within business circles and the international development community more generally, there is surprisingly little systematic research into what it has achieved.[4] Attention has focused primarily on understanding how CSR affects business – in particular financial – performance. But even this analysis is inconclusive, relying heavily on case studies and using varied and often poor methodologies that tend to provide snapshots that say more about inputs and outputs than outcomes and change.

Research is beginning to raise awareness that the impact of CSR cannot be taken for granted. One of the few comprehensive assessments of a large CSR effort is that of the UK – based Ethical Trading Initiative (ETI), which promotes CSR in global value chains of mainly large supermarket groups, agrifood or clothing companies. The study found some improvements related to overtime, occupational health and safety, and compliance with minimum wage legislation, but considerable neglect of labour rights related to collective bargaining and freedom of association.[5]

Pros and cons of the human rights agenda

The recent attention to human rights as another pillar of CSR, particularly through the work of the UN Secretary-General's Special Representative on business and human rights, appointed in 2005, is potentially a significant development from the perspective of poverty reduction. While concerns persist about the voluntary nature of many of the proposals, the framework not only recognizes the multiple dimensions of poverty (economic, social and cultural), but also suggests the need for companies to address CSR more systematically, rather than in an ad hoc manner. The evidence shows, however, that the way powerful actors and institutions choose to apply and interpret a rights-based discourse can be problematic.

Mining companies and international financial institutions (IFIs), for example, are now paying more attention to issues of indigenous rights. They have developed a variety of voluntary standards and other initiatives to address the negative impact of natural resource extraction on the livelihood, identity and environment of indigenous peoples. UNRISD studies in Australia, Cameroon, Chad, India, Nigeria, Peru and the Philippines show, however, that TNCs, IFIs and governments often adopt particular meanings of indigenous rights. These interpretations may, in fact, serve to divide indigenous communities and co-opt indigenous leaders or groups in ways that align indigenous interests with those of state and corporate agendas.[6]

When corporate policies and practices work against inclusivity

Research in recent years has also focused on the limitations of CSR that relate to the structural context in which firms operate and the nature of power relations. The CSR agenda has some major blind spots and in some contexts may have contradictory effects from the perspective of inclusive development. Of particular concern are situations where:

- CSR enhances the influence of big business in global governance and public policy;
- trade unions and industrial relations institutions, as well as Southern stakeholders, are marginalized in CSR processes;
- the CSR agenda ignores issues of corporate power and unequal power relations within value chains and partnerships;
- so-called policing approaches are used by large corporations to raise standards in supply chains;
- CSR co-exists with the tendency to transfer risks and costs down the supply chain, often forcing suppliers to cut costs and undermining their ability to raise labour standards;
- increased wages constrain employment generation and add to the pool of factors encouraging firms to relocate;[7]
- there is a gulf between the CSR discourse of global corporations and business associations and their lobbying and fiscal practices; and
- so-called shareholder primacy – the notion that shareholder interests are prioritized in corporate decision making – and the way companies relate to the financial system encourages managers to focus narrowly on short-term financial results.

CSR varies by region, industry and firm

Despite the global presence of many TNCs, they are still strongly influenced by the institutional context and regulatory frameworks of both home and host countries. The responsiveness of firms to stakeholder or societal concerns is also shaped by the variations that exist in the preferences of particular firms and sectors, the nature of relations between firms and the relative weight of markets or states in coordinating such relations.

Four distinct approaches

An analysis of a large number of corporate policies, commitments and initiatives referred to on company websites and in reports that relate to CSR and poverty reduction reveals four different approaches among the world's top 100 corporations and significant variations by region and sector.[8]

- Inactive: companies make no explicit commitments to poverty reduction or CSR.
- Reactive: companies engage defensively with CSR and modestly support certain CSR initiatives.
- Active: companies adopt a variety of CSR practices and acknowledge the problem of poverty.
- Proactive: companies systematically and proactively apply a broad range of CSR and corporate accountability measures, promote inclusive business models and explicitly support the MDGs.

Furthermore, a tally of whether companies are engaging with the myriad CSR standards and instruments that now exist also reveals the tendency for companies to adopt a fragmented approach. They are active in some areas, but far less so in others. This might be expected in situations where companies begin to engage with CSR, or if they adhere too strictly to the mantra that CSR needs to be tied to core business strategies.[9] But it contradicts the principle that companies that are serious about CSR should be applying ethical principles more systematically rather than picking and choosing.

Table 9.2 suggests that the largest European corporations lean towards a more active response to CSR than East Asian corporations, although the latter are also noted for more traditional corporate social welfare benefits (at least in their home countries) rather than contemporary CSR initiatives. The biggest corporations in the United States are somewhere in between those of Europe and Asia, with a strong inclination towards inactive and reactive approaches. The largest corporations in Latin America, which are state-controlled corporations in the energy industry, have tended to adopt a fairly reactive approach.

TABLE 9.2: Approaches to CSR and poverty reduction: Fortune 100 corporations by region and sector, 2006 (% of row category)

	Inactive	Reactive	Active	Proactive
Total (N=100)	63	55	33	4
Europe[a] (N=52)	48	67	52	8
Headquartered in the United Kingdom	60	60	40	10
United States (N=30)	77	47	13	0
Asia[b] (N=15)	93	27	7	0
Latin America[c] (N=3)	33	66	33	0
Petroleum refining (N=14)	50	71	36	14
Banks (N=17)	59	47	47	6
Insurance (N=13)	62	39	31	0
Electronics, computers, telecommunications (N=15)	74	53	27	0
Motor vehicles and parts (N=13)	69	46	23	0
Retailers, general merchandise, wholesalers (N=12)	75	42	17	0

Note: The classification is based on publicly available information published in company reports, codes of conduct and websites. Some companies score on two or even three indicators under each approach, which changes the sample size per score and explains why the row percentages exceed 100. [a] Includes companies in Germany (14), France (11), United Kingdom (10), Netherlands (4), Switzerland (4), Italy (3), Belgium (2), Spain (2), Ireland (1), Norway (1). [b] Includes companies in Japan (9), China (3), Republic of Korea (3). [c] Includes state-controlled energy corporations in Brazil, Mexico and Venezuela. Source: Based on van Tulder (2008).

Variations in CSR by industry

Responses to CSR also vary significantly by industry and firm, given the variations in business preferences, social pressure, the regulatory environment and the specific history and culture of each company, as well as how these elements interact.[10] Sectoral variations related to the world's largest corporations are indicated in table 9.2. The response of the petroleum refining sector partly reflects the fact that high-profile companies such as BP and Shell periodically find themselves in the sights of activists, the media and regulators for environmental, health and safety and other violations, and need to take action to protect their brand value and reputation. Companies in other sectors targeted by activists often reveal similar responses: for example, Rio Tinto in mining, Nike in sports footwear, Gap in apparel and Nestlé in food processing. Through time such companies have engaged with a broader range of CSR issues. Others, such as ExxonMobil and Wal-Mart, have remained more selective, a fact that reaffirms the relevance of corporate culture as an element that explains the uptake and trajectory of CSR. For companies such as Danone and Unilever, which have a longer social trajectory of one form or another, the jump from business-as-usual to CSR may not seem particularly challenging. This helps to explain not only variations in levels of company engagement with CSR in general, but also the aspects of CSR that are emphasized by corporate management. Norms related to labour rights, for example, tend to be fairly well embedded in European companies, which have a long history of engagement with governments and trade unions promoting labour rights, at least in their home countries.

Attention should refocus on corporate accountability

The above discussion suggests the need to rethink the role of business in social development and poverty reduction that has been promoted in mainstream international development circles. Two strands of analysis are particularly useful in this regard.

First, a growing recognition of the limits of CSR and the need for alternative approaches has led many observers to focus on ways and means of enhancing corporate accountability. The term refers to institutional arrangements that go beyond corporate self-regulation and voluntary initiatives and oblige corporations to answer to their stakeholders, incur some sort of penalty in cases of non-compliance with agreed standards, and provide mechanisms for those whose rights and livelihoods have been negatively affected to channel grievances and seek redress.[11] Whether or not business adopts a meaningful and proactive approach to CSR and is accountable depends to a large extent on the institutional and political settings in which firms operate. Proactivity and accountability require a context in which law, public policy, voluntary approaches, social pressures, critical thinking and learning about best practices combine in ways that are complementary and reinforce each other in positive ways.[12]

> *Growing recognition of the limits of CSR has led many observers to focus on ways and means of enhancing corporate accountability*

Second, if, as argued throughout this report, macroeconomic, social and other public policies are key for development, then it is crucial to examine how business interests influence the design, substance and implementation of public policies.[13] A useful starting point is to consider how business has behaved in societies or varieties of capitalism (that is, the different ways firms use market and non-market institutions to coordinate their activities in different spheres of the political economy) that managed to reduce poverty in relatively short periods of time. In East Asia, the Nordic countries and the United States during the New Deal era, some or all of the following conditions or drivers were particularly relevant.[14]

- Certain types of state-business relations: states had significant administrative capacity, regulatory authority and developmental vision to provide the incentives and controls needed to enhance competitiveness, contain negative externalities and social conflict, and craft social pacts that reduced business opposition to redistributive policies.

- Both states and businesses needed to minimize the disruptive influences or potential threats associated with social pressures, notably labour unrest.
- Certain firms and industries supported social policy for reasons related to business preferences or strategy: firms dependent on skilled workers, for example, needed a well-educated pool from which to draw labour.
- Certain forms of collaborative institutions conducive to social dialogue and bargaining, as well as the presence of broad-based business associations representing large, medium and small enterprises from multiple sectors, played a role in fostering business positions more supportive of progressive public policy. Such associations were more likely to speak for the wider business community than for corporate elites and special interests.

Although based on an observation of today's richer countries, the above analysis is relevant for understanding when business might support labour market and social policies that are conducive to inclusive development. The following sections examine the changing nature of these conditions in the context of liberalization, and how they vary under different development paths and policy regimes.

2. Changes and Variations in State-Business Relations

Powerful ties between political and business elites often ensure that states prioritize the preferences of organized business interests. In developing countries, media and international attention have focused to a large extent on corruption and crony capitalism. In practice, business power and influence come in many guises. The so-called structural power of capital is a crucial dimension of business influence. States typically seek to achieve high rates of growth in the interests of modernization, to attract private investment, and to secure the fiscal revenues on which the state depends. Lobbying, legal and illegal financial flows between business and politicians, bureaucrats and political parties as well as myriad social, professional and institutional relations further bind states and business interests. These mechanisms can vary significantly by country and varieties of capitalism, as well as across time.

From the perspective of social development, four major constraints follow from these relations. First, they favour patterns of resource allocation guided by particular as opposed to public interests. Second, they can reinforce macroeconomic policies that, as was seen in Section one of this report, can have perverse social and developmental implications. Third, they often impose major limits on the scope for redistributive policy. And fourth, social policy may be designed and rights-based laws enacted, but implementation and enforcement lag far behind.

Globalization and liberalization have profoundly altered power relations

Important shifts in the balance of power and regulatory authority have occurred with globalization and liberalization.

- The structural power of some sectors of business has increased, particularly in developing country contexts where government technocrats see FDI as the key to development and are fearful of capital flight or capital strikes. Often, their assumptions about what business wants relate more to the interests of TNCs and foreign investors than the broader business community, which includes domestic capital and small- and medium-sized enterprises.[15]

- The instrumental power of business to mobilize material resources and social capital to influence the policy process through both formal and informal channels has also increased. Important in this regard is the capacity of corporations and business associations to lobby decision makers and the increasing needs of policy makers for technical knowledge, which has facilitated business participation in consultative processes.

- The discursive power of business elites has expanded.[16] This is reflected in the use of buzzwords and narratives that serve to frame knowledge and policy agendas and debates,[17] and demonstrate that corporations are now "partners" – part of the solution and not simply part of the problem.[18]

- There has been a vast increase in non-equity forms of TNC activity associated, for example, with subcontracting, franchising and certain forms of public-private partnerships that have major implications for the distribution of responsibility, risk and costs within value chains.[19]

- New powerful business actors from emerging market economies are increasing their global reach. They are often not exposed to the same pressures that have forced some Northern corporations to review their social, environmental and human rights performance.

- Privatization in developing and transitional economies has not only increased corporate control of key sectors and services, it has also resulted in reduced levels of corporate social welfare that had previously been provided by state enterprises.

- A "new constitutionalism" has arisen in which corporate rights have been locked in via a body of international and national law[20] concerned with property rights and an enabling environment for TNCs and foreign investors in developing countries, which is also part of the good governance agenda (see chapter 10). The strengthening of corporate rights has produced a growing imbalance between corporate rights and obligations, particularly in developing countries,[21] which the CSR movement is seeking to address.

- State capacity in key areas of government has declined, particularly in developing countries undergoing structural adjustment (see chapter 10). This has affected not only aspects of business regulation such as labour inspection, but also policy space or the capacity of developing country governments to resort to a range of policy instruments and approaches. Furthermore, regulatory authority has increasingly been assumed by non-state actors, including corporations and business associations, which set standards and oversee their implementation.[22]

- Democratization affects business-state relations in complex ways: electoral competition and other democratic institutions may favour more pluralistic models of governance and provide space for countervailing social forces. But democracy can also present numerous opportunities for business elites and corporations to lobby, buy influence and take up influential positions in political parties and executive office.

The influence of business varies by industry and policy regime

As a result of these developments, the degree of autonomy that technocracies in some developmental states enjoyed in crafting national development strategies has often been reduced. But it is misleading to overgeneralize about the rise of corporate power vis-à-vis states. Transnational corporations do not always have superior bargaining power. Depending on the industry and policy regime in question, such power may vary considerably, ranging from very high, in the case of a company like Nike investing in a shoe production site, to very low, as in the case of automobile TNCs in China.[23] The relative power of state and business interests associated with FDI depends partly on the nature of the investment involved. Investments that are seeking low labour costs, as in the case of apparel and textile companies in Bangladesh, Honduras and Tunisia, can shift location relatively easily, giving companies more bargaining power. In contexts where investment occurs as part of a search for resources, such as mining companies in Chile or Peru, or for new or bigger markets, as in Brazil, China and India, national governments may have more leverage.[24]

While the dominant change in development policy and ideology that has occurred since the 1980s is often described as neoliberal, this obscures significant variations in approach and practice.[25] Both China and Viet Nam, for example, vigorously entered the international trade regime, but retained important elements of the traditional developmental state. In more established democracies, such as Costa Rica and India, governments of different political persuasions have promoted economic liberalization, but electoral competition and a vibrant civil society have imposed certain limits on the extent to which government policy can liberalize and prioritize business interests.[26]

> *The bargaining power of transnational corporations may range from almost absolute to close to zero, depending on the industry and policy regime*

In newly democratic states

In new democracies, even governments controlled by political parties with Leftist credentials often pursue a neoliberal agenda.[27] In South Africa, both the structural and instrumental power of business have increased through competitive pressures related to trade and investment, perceptions of impending economic crisis, the strength of both home-grown and foreign TNCs and certain sectoral business associations, as well as the rise of a black capitalist class. The close relationship between big business interests and the technocracy played a part in the shift from a more redistributive to a more business-friendly development strategy in 1996. A key dimension of big business influence related to the easy access of the business elite to senior policy makers through formal and informal consultative processes. The instrumental power of business further increased in the past decade with Black Economic Empowerment, which expanded and consolidated a black business elite that enjoyed close personal and political ties to the African National Congress (ANC).[28]

Brazil has experienced a partial shift from a corporatist to a more pluralistic model, where a diverse range of actors and organizations lobby government and parliament. Interests associated with domestic and transnational capital have been particularly adept at taking advantage of this shift. During the initial period of liberalization in the 1980s, when there was a large and sudden flow of FDI into Brazil, some sectors of domestic capital were adversely affected. This led to a major organizational effort on the part of certain business associations to strengthen their influence in the policy and legislative process, in an attempt to influence trade policy negotiations and ensure that labour and other aspects of the "Brazil cost" of doing business were reduced in order to enhance international competitiveness.[29] In both Brazil and South Africa, pro-business gains that derive from economic liberalization have been moderated to some extent by institutional and political developments associated with social dialogue and democratization, which have facilitated civil society advocacy and given voice to a recently enfranchised citizenry (see chapter 11).

In more established democracies

In more established democracies such as Costa Rica and India, governments of different political persuasions have promoted economic liberalization. But a number of countervailing forces exist. As noted in chapter 11, political parties that have to compete in elections and alternate in power are likely to confront certain pressures that limit the pace and extent of liberalization and their willingness to prioritize certain business interests. And such democracies may also have a well-organized and vibrant civil society that includes trade unions, NGOs and social movements engaged in contestation, advocacy and social dialogue calling for business regulation and more inclusive patterns of development.[30]

In more fragile democracies and clientelistic states

In more fragile democracies and clientelistic states experiencing neoliberal reform, state-business relations often evolved in ways that had little to do with the textbook theory of structural adjustment. In Kenya, a fragmented business sector was not only vulnerable to international competition, but also marginalized in formal consultative processes associated with public policy. Transnational corporations increased their presence in the country, but often had to collude with public officials who had a stake in companies that established linkages with TNCs.[31] Indeed, close ties between the upper echelons of the civil service and business, which had been legitimized by a 1970s ruling that allowed civil servants to have business interests, fuelled conflicts of interest and underpinned corruption. As noted in chapter 10, corruption often increased in countries undergoing structural adjustment due to the decline in the real incomes of civil servants.

Similarly, in Peru, rapid privatization increased the power and influence of a group of large, mainly foreign, corporations. Such business interests became highly influential in shaping political appointments in key centres of economic policy making. Furthermore, the use of a "revolving door" mechanism acted as an effective transmission belt between some sectors of business and the state technocracy. Bribery also ensured that some media companies became part of a process that legitimized corrupt practices linked to privatization, provided generous tax benefits and exoneration to companies, and condoned the use of repression, which stifled civil society activism.[32]

Corruption results in fiscal losses, tension and conflict, and a fall in private sector resources

Corruption and economic development

But state capture and corruption are global phenomena: indeed, if public opinion is any guide, problems of bribery appear to be as prevalent in advanced industrialized countries as they are in developing ones (see figure 9.1). How corruption relates to economic development is a complex issue. The effects are often unequivocally perverse, for example, when bribery results in fiscal losses, generates tensions and conflict within the state and between the state and civil society, and prevents business collective action,[33] or when large-scale corruption pumps resources out of the private sector.[34] In some contexts, as in East Asia, corruption may be widespread, but both the state and political parties tend to support a pattern of private sector development that facilitates growth. In this region, however, corruption has also led to periodic crises, given the inability of governments to adopt timely regulatory and interventionist policies.[35]

FIGURE 9.1: Public views on use of bribery to influence government policies, laws and regulations (% of respondents, by region)

Source: Transparency International Global Corruption Barometer 2009. www.transparency.org/news_room/in_focus/2009/gcb2009, accessed in June 2010.

3. How Social Pressure Can Affect Corporate Behaviour

The above section describes how state-business relations often tend towards policy environments that favour investment and growth at the expense of redistribution and transformative social policy. They can also impede the effective implementation and enforcement of progressive laws and regulations. What conditions must exist, therefore, to promote more inclusive models of development and social policy? A large body of political economy analysis and so-called power resource theory emphasizes the need for changes in the configuration of organized interests and the strengthening of coalitions of multiple actors, including political parties and subaltern social groups. How such conditions relate to development strategies and policies conducive to poverty reduction is discussed in chapter 11. This section examines how such pressures affect corporate accountability and business regulation.

The nature of social pressure associated with business behaviour and regulation has changed considerably in recent decades.

- The power and influence of traditional social movements associated with labour and small farmers have weakened in many countries.
- Civil society activism concerned with different dimensions of global justice has expanded rapidly.
- Large corporations, in particular high-profile brand-name companies concerned with product and company image, have been targeted by civil society campaigns.
- NGOs have been particularly active in this field, and have adopted numerous tactics and relationships with corporations that include naming and shaming, the provision of services paid for by corporations, participation in stakeholder dialogues, boycotts of companies and products, and the ranking of companies in particular sectors.

> *In contrast to the mainstream CSR agenda, the corporate accountability movement has redirected attention to issues of power, law and public policy*

In contrast to the mainstream CSR agenda, which is concerned primarily with promoting voluntary initiatives and private standard setting, the corporate accountability movement[36] has redirected attention to a multitude of issues. These include questions related to industrial relations, labour rights, the role of public policy in business regulation, the synergistic relationship between voluntary initiatives and the law (where, for example, norms associated with voluntary codes of conduct are adopted as benchmarks in national law), the imposition of penalties in cases of non-compliance with agreed standards, institutional capture and perverse forms of lobbying by business interests, the right of victims to seek redress, the empowerment of weaker groups in society through organization and mobilization, and imbalances in power relations in governance institutions and value chains.

Labour movements are showing signs of revival

There are also some signs of a revival of the labour movement. In a number of countries, trade unions are attempting to reverse the decline in union density and societal influence by reaching out, for example, to women and informal sector workers, as well as to other civil society organizations.[37] They also appear to be reasserting their authority and influence in initiatives and processes involving dialogue, bargaining and contestation that aim to improve the social, environmental and human rights performance of global corporations. This is apparent in some of the new democracies, such as Brazil and South Africa, where institutions of social dialogue have been strengthened.

In numerous countries with large or growing informal sectors, such as Mexico, Nicaragua and Peru in Latin America, India and the Philippines in Asia, and Kenya, South Africa and Zambia in Africa, informal or own-account workers are organizing nationally and associating internationally through organizations such as StreetNet International, which was launched in 2002. Women workers, often marginalized in male-dominated trade union structures, are either participating to greater effect or forming other organizations, such as the Self-Employed Women's Association (SEWA) in India. While freedom of association is restricted in China, workers have increasingly been mobilizing for better labour standards through various forms of struggle and grassroots strategies, as well as some small unionizing efforts outside the All-China Federation of Trade Unions.[38]

Trade unions and other labour rights organizations are becoming more assertive in the field of CSR, moving from more defensive to more proactive engagement with various multistakeholder initiatives. Furthermore, issues of concern to unions are broadening beyond the workplace: they are now collaborating with broader civil society movements for policy reform and social change.

> *Trade unions and other labour rights organizations are becoming more assertive in the field of CSR*

Activism is becoming more cohesive

NGOs, and networks of NGOs and other groups, have generally had more success in getting companies to commit to certain standards than in holding them to account for delivering them.[39] Whereas there was considerable cohesiveness within the labour movement historically, contemporary civil society activism has often been highly fragmented and dispersed in terms of issues, actions and influence. More recent developments associated with the emergence of transnational activist networks and the global justice[40] and corporate accountability movements suggest that some of the weaknesses of activism are being addressed. Such movements have brought together NGOs, trade unions and grassroots organizations from both North and South, which are integrating national, regional and transnational networks in campaigns, for example, to defend workers' rights in El Salvador and Mexico,[41] indigenous peoples in Colombia and Peru affected by the activities of oil and mining companies,[42] and to agitate against child labour.[43] Networking is proving to be a powerful tool for activism concerned with global justice and corporate accountability. However, ongoing hierarchies, ideological differences and turf battles within civil society, as well as resource constraints, mean that the potential of such new modes of collective action are still far from being realized.[44]

Another development is the rise of activism on a scale commensurate with economic systems and institutions of governance that require change.[45] Given the extent to which global rules and powerful transnational actors and institutions currently affect domestic policy and development processes, it is crucial to organize at the global level.[46] Mobilization at the transnational level and the consolidation of transnational activist networks that connect the global and local scales not only strengthen contestation in key international and national decision-making arenas, but also give disadvantaged groups leverage in local struggles.[47] Particularly relevant in this regard are the struggles of indigenous peoples affected by mining and oil extraction, for example, through the Camisea natural gas project in Peru, Vedanta's operations in India, Occidental Petroleum in Colombia and Shell in the Niger Delta. A key point here is not simply that activism is connecting at multiple levels, but that it is adapting to changes in governance systems that have seen the national stage lose some ground to local, regional and international levels.

Another challenge confronting activists concerns the ability of mobile capital to relocate if social pressures and economic costs increase in a particular country. As in the case of the Asia Floor Wage Campaign, which coordinates action to improve wages in the garment industry in several countries, this calls for organizing on a regional scale. Adaptation is also apparent in relation to the emergence of a broader portfolio of action. The earlier discussion of the need for law, public policy, voluntary initiatives, naming and shaming and other sorts of contestation suggests that activism must engage with multiple institutional and political arenas, and adopt multiple strategies and tactics.

The nature of social activism varies by policy regime

In countries with authoritarian structures, such as China, where independent trade union organizing and the NGO advocacy community are weak, transnational activist networks can play an important role in spearheading improvements in corporate social and environmental performance. They do so by exerting direct pressure on both TNCs with interests in the host economy and the governments of countries that are trading partners. Such activism complements the spontaneous actions of Chinese migrant, state and other workers concerned with the abuse of labour rights and poor working conditions – actions that have escalated sharply since the mid-1990s.[48] Developmental states prioritize economic development, but must also ensure social stability. While authoritarian means may be employed, such regimes also use social and labour market policy, as occurred recently in China with the Labour Contract Law of January 2008. The law, which obligates firms to establish and enforce employment contracts, was introduced despite the concerns of some organized business interests that it would generate costly rigidities that would drive away foreign investment. They lobbied during the consultation period for less intervention in probationary periods and corporate autonomy in deciding employment codes.[49]

In some new democracies, such as Brazil and South Africa, the issue of corporate accountability has achieved a higher profile in public debate and policy circles.[50] This is the result of a combination of factors, including the presence of a vibrant NGO community, a revitalized trade union movement, and linkages with transnational activist networks concerned with a variety of global justice issues. In more established electoral democracies such as India, civil society activism often evokes substantive responses from political leaders. The tactics may vary considerably, ranging from media-savvy and technically grounded advocacy, as employed, for example, by the Centre for Science and Environment, to grassroots protests. One such event, involving 25,000 people, was a month-long march organized by Ekta Parishad in 2007. The protest pressured the government to take action to address the abuse of the land rights and the threats to the livelihoods of tribal peoples and small farmers linked to the activities of corporations, state institutions and infrastructure projects. The 2005 Right to Information Act and Public Interest Litigation have also been used to seek redress.

The relative importance of transnational activism, organizations and networks is also apparent in fragile democracies such as Kenya. Here, sectors of agribusiness, in particular horticulture, have expanded rapidly in the absence of an effective regulatory environment or trade union representation. International civil society campaigns and organizations, such as the ETI, International Union of Food Workers, and Women Working Worldwide have played a role in improving working conditions for women and casual workers within global commodity chains such as those selling cut flowers.[51]

4. Business Preferences Relating to Social and Labour Market Policy

The sections above have focused on power relations and the correlation of social forces. Such analysis is crucial for explaining how business interests relate to and influence public policy in general and macroeconomic and social policy in particular. It runs the risk, however, of generalizing excessively about business preferences that relate to social and labour market policy. These can vary significantly by firm, industry, region and the variety of capitalism that may be operating. Firms and industries dependent on skilled labour, for example, may be more inclined to accommodate public policies supporting education and training. This was a feature of the East Asian model referred to earlier. Under the import-substitution model of industrialization in Latin America (see chapter 1), which protected domestic business from international competition, firms could more easily accommodate welfare benefits for formal sector workers.[52] How firms position themselves in relation to minimum wage policy may also vary depending on levels of competition and the composition of their workforce.

Business preferences have changed under globalization

Business preferences have changed significantly in the context of globalization and liberalization. Financialization, industrial concentration and the growing influence of TNCs in global value chains have changed the scope for businesses to pursue strategies that enhance employment.

Financialization and transnational capital

Financialization (that is, the growing share of finance in economies and the greater application of financial logic to economic and social spheres) has reinforced short-term profitability as a key criterion for evaluating corporate performance.[53] This marks a significant departure from earlier periods or varieties of capitalism in which profits were reinvested into the company, and managers took a longer term view of corporate performance. Not surprisingly, such developments coincide with a marginalization of occupational welfare stemming from pressures to improve shareholder value[54] and a stagnation in productive investment and employment growth.[55] Recent decades have witnessed a large expansion in the number of TNCs and their affiliates. The number of TNCs increased from some 35,000 in 1990 to 82,000 in recent years, while their affiliates expanded more than five-fold over the same period.[56] Compared to the global economic presence of TNCs, employment in affiliates is relatively small. TNCs account for approximately 10 per cent of the world's gross domestic product (GDP) and one-third of its exports, but less than 3 per cent of the global workforce.[57] The shift from so-called greenfield investment – that is, investment in new assets – to mergers and acquisitions has reduced the rate of employment generation associated with FDI.[58] Nevertheless, TNC employment increased fourfold since 1982, reaching 77 million in 2008.[59]

Industrial concentration and restructuring

At the same time, the global business environment has seen an unprecedented degree of industrial concentration by a handful of firms in numerous sectors (see box 9.3). This has come about through a continuous focus on core competencies, while at the same time engaging in complex value chains through which big manufacturers and retailers control the costs and quality of their inputs and products.[60] What has been called the cascade effect has been noted in various global value chains, where concentration not only takes place at the level of the dominant corporations or systems integrators, but also occurs within different tiers of the chain, often crowding out smaller enterprises.[61] The effect is particularly noticeable within some agricultural sectors where the smallholders that survive often have little choice but to receive low prices and incur additional costs to comply with quality standards.[62]

> *TNCs account for 10 per cent of the world's GDP and one-third of its exports, but less than 3 per cent of the global workforce*

BOX 9.3: Corporate concentration

The share of the global market held by the top 10 corporations:

- **Pharmaceuticals: 55%**
- **Seeds (proprietary): 67%**
- **Food and beverage processors: 26%**
- **Agrochemicals: 89%**
- **Biotechnology: 66%**

Source: ETC Group 2008.

Labour standards in supply chains

As global value chains expanded, many developing countries broadened their participation in the international division of labour, supplying raw materials and cheap manufactures produced by low-skilled and low-paid workers.[63] Kenya, for example, has rapidly expanded production of non-traditional agro-exports such as vegetables, fruit and cut flowers, becoming one of the largest exporters of vegetables to the European Union in the 1990s. There is some evidence that this may have contributed positively to poverty reduction via employment. But poor labour standards characterize this sector, which relies heavily on part-time, casual and female labour and the extensive use of pesticides.[64] Working conditions in affiliates of TNCs are often better than in local firms. Nevertheless, TNCs in various sectors are reducing the proportion of permanent labour employed in core enterprises and relying more on subcontracting and casual labour where conditions related to monetary wages, overtime, social entitlements, occupational health and safety, and respect for labour rights are often worse.

Cultural rights and livelihood security

In addition to the question of labour standards in the supply chain, it is important to consider other human rights dimensions, including cultural rights. There is far more to poverty reduction than increasing incomes and employment. What is sometimes referred to as the corporatization of development has, in many countries, led to the large-scale displacement of indigenous peoples, farmers and others from their land, seriously disrupted livelihood systems and food security, and ruptured communities and families through migration to cities and abroad. In countries such as India and Mexico, the speed of liberalization and corporatization has had dramatic effects, particularly on rural communities. Recognition of the dire social effects of such patterns of development is often muted in both international development and CSR discourse, or assumed to be an unfortunate side effect of a necessary development path.

Business interests conducive to CSR and social policy

Industrial concentration and restructuring involving global value chains, as well as economic restructuring involving service-led growth can alter business preferences in ways that are conducive to some aspects of CSR and social policy. Concentration and the rise of both global value chains and intangible assets, notably brands, has cultivated preferences for CSR as companies seek to ward off reputational threats and transfer costs and risks down the supply chain by imposing standards. In some developing countries, including Costa Rica and India, dynamic growth sectors centred on information and communications technology have emerged. This has resulted in the increasing influence of business sectors that have an interest in some aspects of labour market and social policies that prioritize education and training.

There are various contexts in which theory suggests that business interests might oppose social regulation, but where, in practice, the response has been more accommodating. This has been the case in some regional trade agreements involving Latin American countries, the United States and the European Union. In Chile and Nicaragua, for example, business associations have accepted labour and environmental regulations in return for market access; they have also accepted that standards that were not seen as particularly onerous were locked in via such agreements.[65] Other research on how business interests relate to social policy in Latin America shows that, on balance, business has not been particularly proactive in the social policy arena. This has sometimes been due to the limited presence of broad-based business associations – those most likely to articulate demands for social policy. It can also be attributed to the difficulties of engaging in social policy processes that are often protracted and where the costs and benefits of such policies are not always clear, and where the types of firms and informal labour markets that predominate in the region give rise to a relatively low preference for education and training.[66]

Embedding business in society

Whether business elites contribute proactively to inclusive development through fiscal and social responsibility depends to some extent on their embeddedness in social networks. This level can vary significantly, not only by the society in which businesses are operating and the corporate culture, but also by the value chain. At one extreme, for example, are low-value-export manufacturing plants or *maquilas* in the apparel sector, which are attracted by low wages and relief from fiscal and labour obligations, develop relatively few linkages with the local economy and often have a short-term investment horizon. Mining companies often find themselves in a hybrid situation, adopting a long-term horizon but relatively few linkages due to their enclave character.[67]

> *Mainstream literature on CSR often ignores the contribution of small- and medium-sized enterprises that are embedded in local societies*

These situations contrast, say, with those of companies producing food and household products for the domestic market. An in-depth study of the contribution of Unilever-Indonesia to poverty reduction in that country notes multiple linkages and fiscal and financial flows conducive to inclusive development. However, trends associated with subcontracting and net financial outflows from the country were of concern.[68] In countries such as Guatemala and Kenya, which rely heavily on growth in the agro-export sector associated with non-traditional crops, significant backward linkages may also be developed via contract farming. Of concern in this context, however, is the ability of large buyers, often in the United States and Europe, to dictate prices, quality and other standards, and thereby discipline supply chains in order to manage reputational risk, increase control and externalize costs.[69]

Mainstream literature on CSR often ignores the contribution to economic and social development associated with the embeddedness of small- and medium-sized enterprises. Such enterprises are frequently connected more organically to local societies through employment generation, reinvestment of profits and social and cultural ties. Similarly, large home-grown corporations or business groups in developing countries, such as the Arvind Mafatlal, Bajaj and Tata groups in India, the San Miguel Corporation in the Philippines, Anglogold Ashanti and Sasol in South Africa, and Natura and Petrobras in Brazil gained a reputation in the field of social responsibility long before the Westernized notion of CSR was transmitted to developing countries via global value chains and NGO networks. In India, Gandhian ideas associated with trusteeship influenced several business leaders.[70] In Brazil, the Philippines and South Africa, corporate social activism took off when a powerful sector of the big business community, sometimes allied with a progressive sector of the church, realized a third way was needed between repressive regimes and social unrest.[71]

5. The Potential and Limits of Collaborative Institutions

Collaborative institutions – the fourth condition, identifed in section 1, conducive to business playing a constructive role in inclusive development – have evolved in ways that bear some similarities and differences to historical experiences noted above. In this section, particular attention is focused on social dialogue, bargaining and business associations.

Social dialogue and bargaining help drive corporate change

Growing recognition of the key role of institutions in development and good governance has redirected attention to the importance of social dialogue and participation. As discussed above in relation to CSR, a proliferation of institutions is bringing business and civil society actors together in collaborative arrangements associated with standard setting and implementation. In such arrangements, the state generally assumes a lower profile than was the case historically under policy regimes that encouraged social dialogue. Furthermore, many NGOs enter into collaborative relations with corporations that inevitably circumscribe the nature of their demands and actions, particularly in cases where they were funded by corporations. Power relations within these partnerships are often heavily weighted in favour of corporate interests. In this respect they are quite different from the social pacts and compromises involving labour that were a feature of some countries or regions, referred to earlier, that achieved improvements in social well-being for low-income groups.

The considerable attention that has been given to promoting consultative processes and partnerships has diverted attention from the crucial role of bargaining among actors who have not only voice, but also leverage. Trade unions and some larger NGOs, such as the Centre for Science and Environment in India or Ibase in Brazil, can extract concessions from large corporations because of their capacity to name and shame, mobilize workers and consumers, and access policy or regulatory processes.

At the international level, global union federations are adapting to globalization by promoting international framework agreements with TNCs that transpose certain aspects of industrial relations from the national to the global arena. Such agreements attempt to fill one of the most glaring gaps in global governance institutions, namely the absence of collective bargaining at the global level. Under approximately 60 agreements now signed, TNCs agree to apply a set of standards throughout their global enterprise structure. From a policy regime perspective, it is apparent that TNCs from countries such as France and Germany that are associated with the so-called coordinated market model are more inclined to enter into such agreements than those from liberal regimes, such as the United States.

Broad-based business associations can be forces for inclusive development

Umbrella business organizations and public-private partnerships are collaborative institutions that bear some similarity to those seen historically in today's advanced economies. At both national and international levels, corporations are increasingly collaborating among themselves as well as with government and civil society organizations to promote and set standards, and to facilitate their application. So, too, are peak associations, which represent firms and employers engaged in multiple industries and sectors. Organizations such as the International Chamber of Commerce, the International Organisation of Employers, the World Business Council for Sustainable Development and the World Economic Forum have emerged as major players in the promotion of CSR and public-private partnerships.

Corporations often organize around largely sectoral initiatives, as in the case of Responsible Care, the Common Code for the Coffee Community, the International Cocoa Initiative, the ETI, the EITI and the FLA. As explained above, though such forms of privatized regulation can have contradictory implications vis-à-vis inclusive development and democratic governance, they have facilitated certain forms of social dialogue. They have also directed the attention of organized business interests to the social and environmental dimensions of development and the need to fill governance gaps associated with globalization and liberalization.

In some countries that have experienced rapid liberalization, business associations have remained fairly weak. In Kenya and Zambia, for instance, this has resulted from the economic vulnerability of certain firms and industries, clientelistic relationships and political intervention. In other countries, such as India, rapid economic and structural change has resulted in the splintering of established organizations and the emergence of competing associations, representing new economic actors. But in this case, some business associations have moved from being defensive to proactive in terms of policy advocacy, knowledge generation and the provision of support services.[72]

> *In the wake of trade liberalization in Brazil, national business interests came together to lobby on a range of policies and laws*

In Brazil, a more cohesive approach to collective business action has emerged in the wake of trade liberalization. Here, two factors came together: national business interests experienced severe shocks from the rapid opening up to foreign competition in the 1980s. At the same time, businesses also agreed that a relatively autonomous technocracy should not be allowed to decide the new rules of the game without their having a voice at the table. Various business interests therefore came together to lobby on a range of policies and laws that affected competitiveness, as well as on ongoing trade negotiations.[73]

A key determinant of how conducive collective business actions are to inclusive development is how encompassing business associations are, in terms of the sectors and types of firms they represent. The number of countries with private-sector umbrella organizations has expanded under liberalization, but they are often dominated by the interests of large corporations. Given the importance of small- and medium-sized enterprises in local economic development and employment generation, the question of their ability to organize to gain voice, influence and bargaining power is essential. Lack of resources and the dispersion of such enterprises often greatly complicate this task. Even in regions such as Europe, where organizational potential tends to be greater and is often supported by government policy and law, there is a low propensity for small- and medium-sized enterprises to associate in the more well-endowed peak business associations.[74] Joining such organizations may facilitate access to free services, but it is the interests of larger corporations that are likely to be heard in the relevant advocacy networks attempting to frame and influence public policy.

Collective business actions involving small- and medium-sized enterprises

International development organizations are actively promoting the creation and support of business associations. However, there are considerable variations not only in the types of organizational structures involving small- and medium-sized enterprises, but also in their developmental and political implications. For example, associations representing small- and medium-sized enterprises from multiple sectors may be incorporated into associations that are dominated by big business interests. Or, small-enterprise associations may fragment along ethnic and religious lines. Research in sub-Saharan Africa shows that this often occurs in contexts where structural adjustment programmes and rapid economic liberalization have marginalized the small businesses and resulted in weak state support structures and programmes. A coping strategy for clustered firms in Nigeria, for example, has been to gain access to resources by integrating local clientelistic political and social networks associated with particular ethnic and religious groups.[75] Business groups in some of the more successful Southeast Asian economies, such as Malaysia, have also organized along ethnic lines. In such cases, however, they have tended to support, implicitly or explicitly, national development strategies, whether due to the benefits of high growth or more direct forms of state support.

> *Often, the driving forces behind collective business action involving small- and medium-sized enterprises are external shocks*

Often, the driving forces behind collective business action involving small- and medium-sized enterprises are external shocks. This can occur, for example, when non-tariff trade barriers are suddenly imposed on developing country producers, or cheaper or better products suddenly enter an economy.[76] Such associative activity, however, may have varied implications vis-à-vis poverty reduction. It is common for small-enterprise associations to push for exemptions from fiscal and social insurance responsibilities, and from meeting labour and environmental standards. And politicians may seek to comply with such demands for short-term political gain and to safeguard the employment-generating role of this sector, albeit by reproducing poor quality jobs.[77] This burden-reducing approach, which clearly has contradictory implications from the perspective of poverty reduction, can be aided and abetted by the current orientation of some international development agencies that support the development of small- and medium-sized enterprises in general, rather than the type of strategic interventions that support the development of particular products or sectors. Such interventions were a feature of both the East Asian and Nordic development paths, as well as successful cluster development in some of today's less developed countries.

6. Towards Corporate Accountability: Implications for Policy

The above discussion suggests that national and international policy and institutions are often pulling in contradictory directions from the perspective of inclusive development. Standard setting for CSR, for example, may attempt to raise the bar in relation to working conditions, environmental management systems and respect for indigenous rights. But policies and institutions associated with economic liberalization often exert undue pressures on wages, labour rights and small enterprises; reduce state capacity to inspect workplace conditions; and encourage transnational mining and other corporations to expand operations in environmentally and culturally sensitive areas. TNCs may raise labour standards within their core enterprises, but rely increasingly on subcontractors whose working conditions and labour relations are often worse. Consultative processes may provide a place at the table for a variety of stakeholders, but the increasing power and influence of corporations and their growing legitimacy in global governance often marginalize the voices of other actors.

> *National and international policy and institutions are often pulling in contradictory directions from the perspective of inclusive development*

Such contrasts suggest that far greater attention needs to be paid to the tensions, trade-offs and contradictions inherent in contemporary policy approaches and institutional arrangements. From the perspective of inclusive development, a key challenge is not only to promote employment-centred structural change, as discussed in Section one of this report, or transformative social policy, as discussed in Section two, but also to reassert social control over markets and large corporations via various forms of regulation and the reconfiguration of power relations. From the perspective of efforts to promote CSR and corporate accountability more specifically, the analysis in this chapter points to a dual challenge – one developmental, the other regulatory. Both the mainstream CSR agenda and the corporate accountability movement need to pay more attention to the development implications of institutional reforms. Such implications relate in particular to impacts on suppliers, employment of unskilled workers, corporate taxation, linking CSR and national development strategies and priorities, and inclusive business models that focus less on consumerism and more on enhancing skills and productive capacities. Also important is greater inclusion of developing country perspectives and stakeholders in consultative and decision-making processes.

Create an enabling environment for collective action

The regulatory challenge relates to the need to strengthen countervailing forces and institutional arrangements that can moderate forms of business influence and practices that have perverse social and developmental implications. These moderating forces range from trade unions and other labour and human rights organizations to farmers organizations, as well as networks of activists concerned with the impact of TNCs. The coexistence of diverse forms of civil society action – both cooperative and confrontational, associated with information gathering and dissemination, watchdog activities, channelling grievances through both non-judicial and judicial mechanisms, policy advocacy, bargaining and protest – is important to promote business policies and practices that are supportive of decent work, local development and transformative social policy. The fact that different types of firms and industries relate differently to social and macroeconomic policy (as seen above in the discussion on business preferences) suggests that there is significant scope to include business actors in coalitions supportive of transformative change.

The role of civil society organization and mobilization points to the crucial importance of enacting and enforcing laws safeguarding freedom of association and the right to information. Particularly in contexts where state inspection capacity is weak, governments and aid agencies can support the work of trade unions and labour rights or human rights NGOs engaged in monitoring working conditions and labour rights. Institutions for social dialogue need to guard against situations where participation is sanitized by being restricted to the chosen few or where voice and power relations are skewed towards business elites. Governments can also play a role in fostering business associations that effectively represent the interests of smaller enterprises, through the provision of incentives, developing the administrative and technical capacity of business associations, and institutionalizing state-business dialogue.

Forge social pacts between business and government

The analysis of state-business relations under different policy regimes and development paths suggests that certain types of pacts or compromises in which business elites support or accommodate government development strategies in return for particular benefits have, historically, been an important feature of models conducive to poverty reduction. Contemporary pacts or partnerships – whether they be the UN Global Compact or business support for Brazil's Zero Hunger initiative – appear to hinge on a bargain where business is expected to support CSR in return for guarantees from government and leaders to support market liberalization.[78] From the perspective of social development, however, such pacts, which provide more general market-centred incentives, seem to lack the force of those in East Asia where large corporations committed to some aspects of corporate social welfare in return for industrial policies that provided business-centred incentives. Another variant can be found in contemporary South Africa, where the shift towards liberalization has seen companies not simply commit rhetorically to CSR, but actually increase their relative share of total tax revenues as a percentage of GDP, although some have not shown the same commitment to raise investment levels.

In a context where developing country governments are calling for greater policy space,[79] there needs to be more attention to ensuring that macroeconomic and labour market policies are less fixated on the priorities of international finance and transnational capital, and are more in tune with the needs and preferences of the wider business community.

Promote international norms and laws that regulate TNCs

In the context of globalization, it is clear that international norms and law must play a pivotal role in regulating TNCs and mobile capital. But the tendency for international "hard" law to be reserved for strengthening corporate rights associated with FDI, trade liberalization and intellectual property, and international "soft" law and voluntary norms for promoting corporate responsibility needs to be corrected. The context of the global economic crisis is an opportune moment to rethink this approach.

The trend within the United Nations to promote voluntary initiatives and corporate self-regulation through the UN Global Compact and other forums now confronts the reality that conventional approaches to CSR are severely limited in terms of ensuring corporate accountability. The ongoing inquiry within the United Nations in relation to business and human rights, and the specific interest in due diligence and strengthening grievance procedures – generally, adding "teeth" to existing institutions – is potentially important in this regard.[80] So too is the current revision of the OECD Guidelines for Multinational Enterprises.[81] At a minimum, the international CSR agenda should address far more centrally certain issues such as labour rights, industrial relations, conflicts of interest, corporate lobbying and other forms of policy influence, executive pay, tax evasion and avoidance, and the social effects of corporate concentration. The discussion in this chapter suggests that proposals related to an international competition authority and a UN corporate accountability entity engaged in monitoring, oversight and redress also need to remain on the agenda.[82]

Bring states back into the development equation

State regulatory and inspection capacity needs to be enhanced. However, the analysis also points to various limits as to what should be expected of governments. State capacity has been rolled back in many countries, and key sectors of technocracies and political elites have been captured by particular business interests. Corporations are becoming significant actors in global governance. This points to the role of large firms as political actors themselves, not simply entities that can be easily regulated by public policy.[83] As political actors, however, they can also be challenged politically and will need to respond through compromise or by neutralizing opposition.

Crafting state-business relations that are conducive to inclusive development and poverty reduction will require transformations in collective action and coalitions. Processes and ideologies associated with globalization and liberalization clearly alter the nature of solutions and the politics of what is possible. Past state-business-society relations cannot simply be reconstructed. But, as indicated above, it is possible to envisage certain forms of collective business and civil society action that could potentially play an important role in this respect. Particular attention has been focused on the types of demands, proposals, networks and coalitions associated with the growing corporate accountability movement, as well as the need to move beyond a focus on either the firm or the nation-state, to actions and institutional arrangements that operate and connect on multiple scales.

This suggests that states need to play a more central role in the development equation. As indicated in chapter 10, this requires not only accepting the principle of policy space, but actually strengthening state capacities related to resource mobilization and enforcement. It also requires addressing the issue of state capture. If states are to be captured, it should not be by corporate elites but, as chapter 11 suggests, by an empowered citizenry through the institutions of democracy and collective action.

Notes

1 UNCTAD 2008.
2 Bendell 2009; Utting 2005a.
3 UNCTAD 2009a.
4 Blowfield 2008; Hamann 2007; Utting and Zammit 2006; Utting and Marques 2010.
5 Barrientos and Smith 2006.
6 Sawyer and Gomez 2008.
7 Harrison and Scorse 2010; Kabeer 2004.
8 Van Tulder 2008, 2010.
9 Porter and Kramer 2006.
10 Levy and Kolk 2002.
11 Bendell 2004; Newell 2002; Utting 2008.
12 Utting 2005b.
13 Marques and Utting 2010.
14 Marques 2010.
15 Farnsworth 2010; UNRISD 2008.
16 Fuchs (2005) refers to the structural, instrumental and discursive power of business.
17 See Cornwall and Brock (2006).
18 Utting and Zammit 2006.
19 See UNCTAD (2008, 2009a).
20 Gill 2008.
21 UNRISD 1995.
22 Gibbon and Lazaro 2010; Rittberger and Nettesheim 2008; Vogel 2006.
23 Chang 2003a.
24 Schneider 2004.
25 Crouch 2010.
26 Murali 2010.
27 Mkandawire 2006.
28 Mkandawire 2006.
29 Mancuso 2010.
30 Murali 2010.
31 Oloo 2008.
32 Durand 2010.
33 Durand 2010.
34 Gomez 2002.
35 Gomez 2002; Wedeman 2002.
36 Bendell 2004; Broad and Cavanagh 1999; Utting 2008.
37 Jose 2002.
38 Wang, K. 2007.

39 Blowfield 2008.
40 Della Porta 2006.
41 Palpacuer 2010.
42 Santos and Rodríguez-Garavito 2005; Sawyer and Gomez 2008.
43 ILO 2006; Utting 2008.
44 Bendell and Ellersiek 2009.
45 Evans 2008.
46 Keck and Sikkink 1998.
47 Evans 2008.
48 Kwan Lee 2005.
49 Wang, K. 2007; Global Labor Strategies 2008.
50 Cappellin and Giuliani 2004; Fig 2007.
51 Dolan and Opondo 2005; Smith et al. 2004; Ponte 2008.
52 Haggard and Kaufman 2008.
53 Milberg 2008; Vander Stichele 2005.
54 Cutler and Waine 2001.
55 ILO 2008b.
56 United Nations 1992; UNCTAD 2009a.
57 UNCTAD 2007b.
58 Kim Kee Beom 2006.
59 UNCTAD 2009a.
60 Nolan et al. 2008; Gereffi et al. 1994.
61 Nolan et al. 2008.
62 UNCTAD 2009a; Clapp and Fuchs 2009; Gibbon and Ponte 2005.
63 Razavi et al. 2004.
64 Humphrey et al. 2004; Dolan and Sutherland 2002.
65 Bull 2010; Carrión 2010.
66 Schneider 2007.
67 UNCTAD 2005.
68 Clay 2005.
69 Sum 2010.
70 Sundar 2000; Sood and Arora 2006.
71 Cappellin and Guiliani 2004; Fig 2007.
72 Sood 2007.
73 Mancuso 2010; Mejido et al. 2010.
74 Traxler 2005.
75 Meagher 2007.
76 Tendler 2002; Coslovsky 2007.
77 Tendler 2002, 2004.
78 Annan 1999.
79 UN General Assembly 2009.
80 United Nations General Assembly/Human Rights Council 2007, 2009.
81 OECD Watch 2010.
82 UNRISD 2004b.
83 Crouch 2010.