



# Amsterdam Business School

## Multinationals, corporate social responsibility and sustainability

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## Adressing the problem(s)

Poverty: barely declining

Inequality between and within nations: widening

Armed conflict

Child labour

Air pollution, soil degradation, deforestation

Climate change

.....

→ NGOs (non-governmental organisations) put pressure on governments, international organisations, but also on international companies (multinational enterprises – MNEs)

## UN Millennium Development Goals

Eradicate extreme poverty  
and hunger

Achieve universal primary  
education

Promote gender equality  
and empower women

Reduce child mortality

Improve maternal health

Combat HIV/Aids, malaria  
and other diseases

Ensure environmental  
sustainability

Develop a global  
partnership for  
development

<http://www.un.org/millenniumgoals/>

## Beyond government...

Regulation has limitations (government failure), old approaches have 'failed', and the private sector is influential, thus a call for a voluntary business role as well (often labelled as CSR)

Self-regulation, via voluntary 'rules' (codes of conduct)

Private initiatives and/or via partnerships with other parties

Generic approach (e.g. UN Global Compact)

Industry-specific (e.g. Equator Principles)

Firm-specific (individual activities)

## UN Global Compact (generic)

10 Principles in 4 areas:

Human rights (Support/respect protection of internationally proclaimed human rights & make sure to be not complicit in human right abuses)

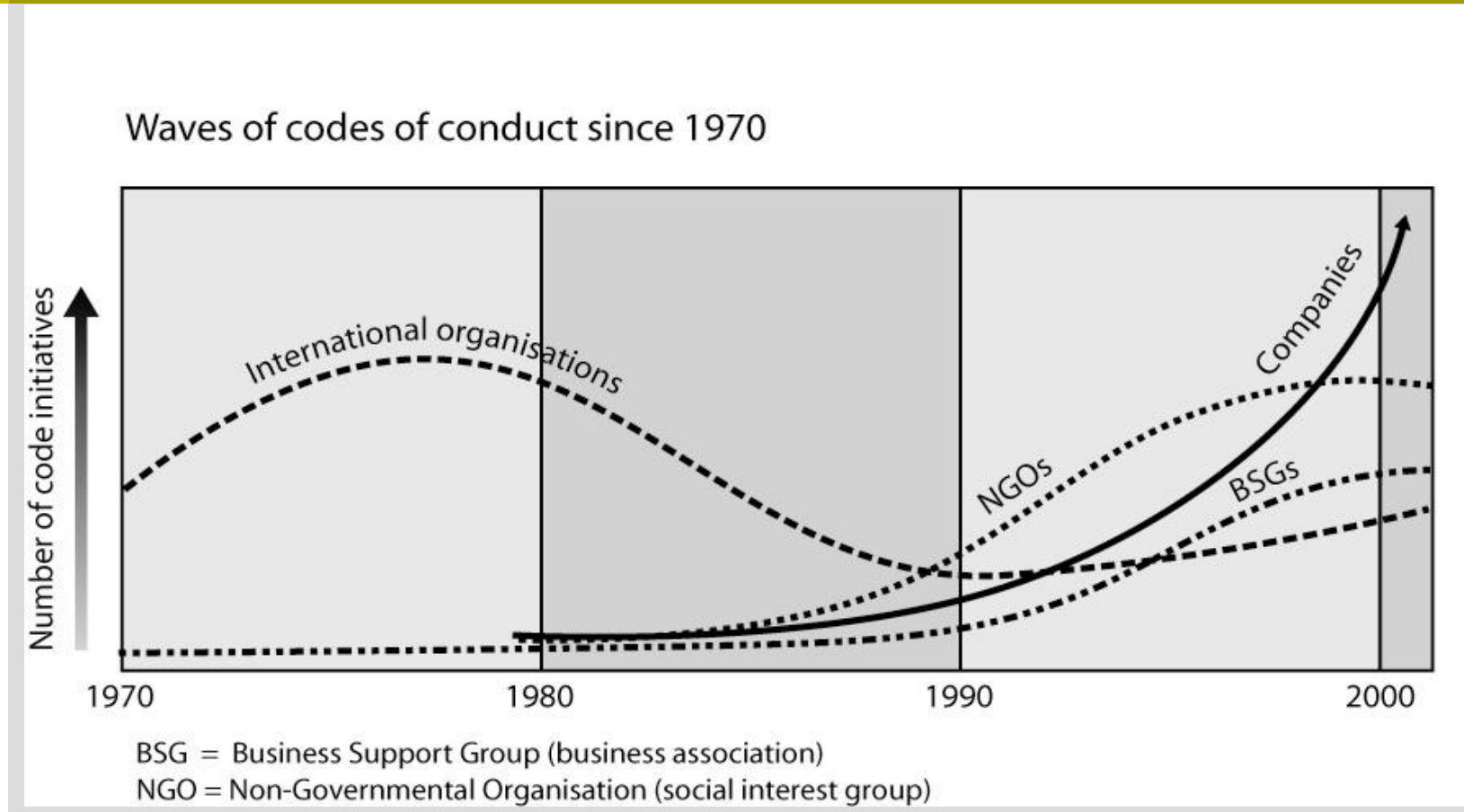
Labour standards (freedom of association; no forced/compulsory/child labour; no discrimination)

Environment ('precautionary approach', environmental responsibility & technologies)

Anti-corruption

<http://www.unglobalcompact.org/>

# Waves of codes since 1970



## Good idea? Supporting CSR as social policy instrument

Companies/markets are the most efficient way of determining needs and finding solutions:

- Companies with most acceptable practices will have more satisfied customers, employees, owners, and will hence ‘thrive’
- They have more expertise than individuals and governments to tailor products and services
- They have a better understanding of trade-offs, technologies and trends in society, and can act in a more rational and realistic way than government
- They can more easily engage in ‘experimentation’ than government and NGOs (entrepreneurship / innovation)

## Or.. Firms have a different role, CSR not socially optimal?

Companies 'naturally' focus on solving those problems that generate economic rents and CSR goes against this:

- Not the purpose of firms, they should optimise their business; any rents should go to individuals who can then decide about the purpose
- Companies may skew societal standards to their own needs (regulatory capture, direct/indirect political influence & CSR used as barrier to entry)
- Are not representative of society at large ('urban upper middle class')
- Companies tend to be socially conservative by nature, will only experiment if there is a clear profit
- They are not democratically elected, it should be up to government to delivery social services and be accountable for this
- Companies are not experienced in evaluating social benefits; they may not choose the best way/mechanism



## But on the other hand, also reality of business...

“Corporate responsibility is often thought of as a new concept. In reality, companies have always had to address issues of **social and environmental responsibility** as a core part of doing business. However, the recent external focus on **corporate social responsibility** has provided an impetus for businesses of all sizes to challenge their existing practices and to focus on introducing increasingly rigorous processes into their work. We have embraced this challenge.” (Centrica)

“Carrefour’s commitment to sustainability is based on identifying the impact and risk deriving from its activities. Day by day, the Group takes into account the three domains – **economic, environmental and social** – for which it is responsible. Carrefour’s progressive approach seeks to create **three types of value-added** in all of its business activities.”

## Still... a much older debate about 'good' vs 'bad'

Particularly noteworthy when it comes to MNEs and developing countries

Negative: abuse of powerful position?

Footloose, different standards worldwide, low-wage countries, child labour, pollution haven, 'greenwashing'

Positive: use influence/resources to have a positive impact?

Leading edge, setting standards, diffusion of 'best environmental and social practice'

In general difficult to assess, i.e. very context and company-specific

## MNEs in a global context

Global companies, but in many different local settings:

How to deal with different standards in different markets/countries?

- Global strategy: standardisation in all locations
- Multidomestic strategy: adaptation to local settings

Can also be regionally-focused (e.g. in EU) (regional strategy)

Approaches may also differ, depending on the issue at hand, departments/business units and/or countries involved

Industry dynamics (follow the leader, bandwagon effect), particularly when firms operate in 'global' industries

## MNEs and a range of norms, laws and standards

Certain norms are accepted worldwide:

Widespread agreement among nations about a range of norms  
(human rights treaties, fundamental rights, UN conventions)

Certain moral norms must be endorsed by each society if society is  
to exist at all

Certain moral norms are required if business practice is to function at  
all

But in case of different norms / standards – which one to follow?

4 options:

- ✓ Host-country norms (respect)
- ✓ Home-country norms (patriotic)
- ✓ Follow whichever norm is most profitable
- ✓ Follow whichever norm is morally best

(Bowie, 1997)

## Things to decide – managers’ ‘moral free space’

Hinges upon two types of conflict between countries:

Conflict of relative development: Would something be acceptable at home if his/her country would be in a similar stage of development?

Conflict of social/cultural traditions: Is it possible to conduct business without it, is it a violation of a core human value; how to best respect local norms?

(cf. Donaldson, 1996)

## Regulation and/or self-regulation? Censorship in China

Was a debate in 2006 already; options then:

- Regulation? 'Limit the freedom to do evil abroad' (pleas by companies, e.g. Microsoft, 'Foreign Oppressive Practices Act') (cf. FCPA on corruption)
- Self-regulation in general (cf. Sullivan Principles)?
- Self-regulation at industry level? (cf. mining/finance sector)
- Apparently individual firm-level no option?

Now, Google has announced individual steps.... Shows change

What norm(s) are adopted? (cf broader debate on privacy)

What about drivers?

## The example of child labour....

No overall international consensus on definition; continuum ranging from 'acceptable' to 'unacceptable'

child work': light work not likely to be harmful to health or development, and school attendance (ILO Convention 138; age of 13/12 years)

'child labour': intolerable forms of abusive, exploitative and dangerous working conditions (ILO Convention 182; age of 18 years)

So which minimum age is most appropriate in which cases? What happens in case of underage workers?

Level of development matters, as do cultural differences

No agreement on best approach

Child labour mostly in informal sector; limited direct export linkage

## Role of business in climate policy

- In the 1990s many, mostly US multinationals unified in the Global Climate Coalition to oppose climate change regulation
- Currently, business has a role in the way climate change is regulated: choice for policy instruments; examples:
  - In the EU firms have helped in designing the Emissions Trading Scheme (EU ETS) and they lobby for a large share of allowances
  - US industry 'self-regulation' and technology subsidies (often) in conjunction with US EPA

But...

- BP & ConocoPhillips recently left US Climate Change Action Partnership (cf. role of Shell)
  - In Australia the coal industry has been influential in delaying Kyoto ratification; while in Canada Alberta's oil industry has played a role
- Role of country of origin/location, and sector



## Some conclusions

- MNE role is multi-faceted; many issues to be addressed
- Debate about whether this is the purpose of the firm and/or what is best from a societal perspective
- Does it fit the business model, or highlight the need to change
- For obtaining good insights, we need to be specific about
  - Which type of company, e.g.
    - In which sectors does it operate?
    - which home country?
    - how international/regional/local is it, and in which countries is it active → industrialized/developing/emerging?
    - how large/small, how organised/structured
  - Which issue(s), how relevant to the firm and its markets