BEYOND CORPORATE

SOCIAL RESPONSIBILITY

Globally active and innovative firms create value by taking rather than avoiding risk. Yet, CSR rules and norms still imply that risk management will do to address the global sustainability challenges.

By Philipp Aerni

As the main beneficiaries of an increasingly globalized economy multinational corporations (MNCs) are asked to follow standards and rules that minimize the potential harm of their economic activities for society and the environment – independent of the region in which they operate. The efforts of MNCs to comply with these public demands are reflected in their involvement in numerous voluntary global oversight institutions and their efforts to comply with industry-wide standards related to corporate responsibility and sustainability. In addition, there are a growing number of international awards and rankings that enable MNCs to gain recognition for their performance and progress as good "corporate citizens".

Scalable innovation matters

Even though these are all commendable efforts, Corporate Social Responsibility (CSR) reports should not just cover what a company does besides making profit. In fact, it would be of greater interest to know if its profitable business also generates any positive social and environmental side effects. Throughout history, entrepreneurs who created and later scaled up innovation proved to be profitable and sustainable, for example by making essential products more affordable for low-income consumers, by improving worker and environmental safety of industrial production or by solving scarcity problems through the development of substitutes for overexploited natural resources. The big advantage of a profitable sustainable business is that it is scalable. Unlike sustainable niche products, they actually reach the mass markets.

Conventional CSR reports tend to be focused on portraying the company as a good corporate citizen who puts people and the environment before profits. As a result, readers often get the impression that there is a trade-off between profits and sustainability, even though it is ultimately the profit that ensures that a sustainable business will be continued and further improved. A company may fetch a premium price for its sustainable product or benefit from government subsidies, but then it may only reach consumers in affluent economies while people with low incomes in developing countries the so-called majority world, remain unserved.

Socially responsible companies are committed to local embeddedness

OECD-based MNCs who take the risk of investing in subsidiaries in developing economies that face poor infrastructure, poverty and institutional uncertainty may have a larger sustainability impact than their counterparts who just operate in affluent economies, especially if the subsidiaries are embedded in the local economy. Why? Because their commitment to embed themselves into the local economy makes the subsidiaries interested in improving the local conditions of doing business. As a result, they may introduce new practices and techniques that reduce uncertainty and lower transaction costs in the domestic economy.

If a MNC subsidiary that abides to global sustainability standards is committed to source certain inputs locally it will help upgrade the local supplier to a level that enables it to comply with these standards. These efforts to integrate local companies into global value chains require knowledge and technology transfer as well as investments in local infrastructure and capacity development. Consequently, a commitment to local embeddedness eventually contributes to a prospering, competitive and more diversified homegrown economy that is less dependent on the extraction and export of natural resources to finance its imports. In addition to buying from local companies, local embeddedness also includes the willingness of the subsidiary to sell a share of the output at an affordable price to local clients. Even though selling products locally may involve higher transaction costs and lower profit-margins on the short run, it helps the MNC subsidiary to gain local social capital, which may pay off on the long run since it ceases to be associated with foreign interests (see info box).

By lifting people out of poverty through economic empowerment, embedded foreign investors may therefore contribute directly or indirectly to several of the 17 Sustainable Development Goals (SDGs) approved by the UN General Assembly in fall 2015.

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Moral courage as an entrepreneurial virtue

Alas, investing in "high-risk" countries with many poor people, serious environmental and public health challenges, and often corrupt and autocratic governments may also put the CSR reputation of an MNC in developed economies at risk. After all, it is difficult to avoid collaboration with the respective governments since foreign investors require permits and concessions to operate. Moreover, it is quite easy for anti-MNC activists to denounce foreign direct investment (FDI) in fragile developing economies as "land-grabbing" or "exploitation of poor labor and environmental standards".

A MNC may therefore focus its CSR strategy on the principle of "do no harm" and avoid the risk of investing in high-risk developing economies altogether. In other words, it becomes a good corporate citizen without moral courage. It behaves well but only where it is easy to do so. Its impact on global sustainable change is very limited.

The social scientist Jane Jacobs once criticized the body of academic literature that is concerned with "the roots of poverty". For Jacobs, poverty has no cause; it is simply the absence of prosperity, just like cold stands for the absence of heat. Since the source of prosperity is an inclusive and entrepreneurial economy, morally courageous MNCs with their scalable innovations and their embedded subsidiaries may therefore play a crucial role as enablers of sustainable economic change, especially where it matters most, in the majority world. Alas, current CSR reporting standards tend to focus on managing and preserving prosperity rather than spreading it.

EXAMPLE BATA SHOES

The international company Bata started originally in the Czech Republic but then quickly expanded into many other countries in the course of the 20th century. For many decades, the company runs subsidiaries in several African countries where its shoes are primarily produced for the local market and consequently tailored to local needs and preferences. As a result, most Africans buy Bata shoes because that is what they can afford and what suits the local circumstances. As a consequence, Bata is perceived almost everywhere in the developing world as a domestic rather than an international company. It has earned the company a great amount of social capital because its shoes have generated great welfare effects for the underprivileged people.