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BUSINESS, CORPORATE RESPONSIBILITY, AND POVERTY

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1 INTRODUCTION

Are we asking too much to expect business to go beyond its conventional economic roles to become a more active, conscious, and accountable participant in the development process? Can business be a development agent, or by courting its involvement in areas such as poverty alleviation, are we extending an invitation we will later regret to a maverick element? What are the consequences both for business and wider society of the private sector becoming a development agent? Is it something to be welcomed for the additional resources and comparative strengths it gives access to, or is it something to be wary of because of how it might influence the development process, perhaps even the meaning of development itself? What does the field of ‘corporate responsibility’ have to offer in creating a bridge between conventional business agendas and poverty alleviation? Is it an effective way of reconsidering the private sector, and managing company strategies? What has been (or might be in future) its impact on the intended beneficiaries of international development efforts?

These are the key questions addressed in this chapter. Its starting point is not whether business has a role to play in economic growth, but whether business can be a development agent which consciously endeavours to deliver developmental outcomes (Section 2). To answer this, we need first to understand the different ways that business relates to poverty – as its cause, its victim, and its solution. The nature of that relationship affects business’ response (what is required, and what is actually done), and I provide examples of private sector initiatives address different dimensions of the relationship, exploring both the achievements and limitations (Section 3). From this, determinants and characteristics of when and how business is managing poverty can be identified, and the impact of business’ involvement can start to be understood (Section 4). What emerges from this mix of theoretical and empirical analysis are answers to what role business is playing in development, and more importantly the possibilities and limitations of that role in the future: the likelihood and circumstances under which business undertakes a developmental function, and – reemphasising a recurring theme of this book – is willing to be accountable for the outcomes (Section 5).

2 CONTEXT

2.1 Business as an agent of development

The subject of this chapter is how business interacts with poverty, and how that is affected by corporate responsibility. I use corporate responsibility in a broad sense, meaning quite simply the responsibilities private enterprise has towards society, including the economies, ecosystems, and institutions on which functional societies depend. It embraces both the defining of those responsibilities, and how they are acted upon, and hence includes corporate responsibility as an area of both social and management theory, and (as several examples in this chapter highlight) how these two fields interact and influence each other.

As we will see, business self-interest is a central part of defining responsibility. But for those liberal economic purists who advocate what is variously called the Washington Consensus and American Business Model, the very idea that companies should be mindful of their responsibilities to society is dangerous. It is argued companies exist to create value for shareholders, subject to legal constraints (Friedman 1962). By so doing, they contribute to the public good: creating jobs, supplying goods and services, and helping to fund necessary social institutions. Yes, companies have a social

responsibility, but it is not something that needs special consideration because profit maximisation is a sufficient proxy for the various other contributions private enterprise can make.

Echoes of this argument can be heard in discussions about growth-driven development. If sustainable poverty alleviation depends on economic growth, then business as the primary creator of wealth has a central role to play. But should it be treated as a development agent, consciously striving to deliver and moreover be held to account for developmental outcomes? Or should it be considered a development tool, no more responsible for positive or negative outcomes than a hammer is for a carpenter's thumb?

When business acts as a development tool, the outcomes can be positive – creating jobs, generating wealth, meeting people's needs through the provision of goods and services. Two studies of Unilever's impact on the poor, and its economic footprint in Indonesia and South Africa respectively show the complex economic outcomes that can result from a multinational producing and marketing goods in developing countries (Clay 2005; Kapstein 2008). Simply by doing 'business-as-usual', the development tool may affect poverty more significantly than consciously attempting to engineer particular developmental outcomes (Newell & Frynas 2007). *"Whether it is altering the sustainability of local livelihoods or bringing cleaner production processes and improved technologies, displacing local industry or boosting it, fuelling war through investment in conflict zones or providing much needed resources to resolve such conflict, it is in the day-to-day management of the firm and through the taking of key investment decisions that development gains come to be realised or denied"* (ibid.: 674). However, the question is not whether business has an impact on poverty, but whether or not it can and should be accountable for causing, preventing, and alleviating poverty. For instance, the development tool might create jobs, but business as development agent takes responsibility for the number of jobs it creates, their location, and the quality. The development tool might make products available in poor countries, but the development agent makes products suited to the needs of and accessible to poor segments of the population.

In this chapter, we are interested in private enterprise as development agent: something that not only affects poverty, but is the subject of conscious actions undertaken because of poverty. The agent can be a company, an industry, an inter-company alliance, a multi-sector partnership, or any other entity where the actions of the private sector are influenced by an awareness of poverty. Our main interest will be company actions (e.g. by management or investors), but we will also explore how others such as international development agencies have influenced the private sector.

2.2 A brief history of business as a development agent

There is nothing new about companies being development agents. From the Dutch East India company in Indonesia to the British South Africa company in 1920s Zambia, private companies administered vast territories, and performed governmental alongside commercial functions. The expectations of companies shifts over time, and are shaped by all manner events. In Argentina, for example, what was good practice in the late 1990s, when increased foreign direct investment led to the widespread adoption of international social and environmental standards, came to be viewed as inadequate aping of Western practice in the wake of the 2001 financial crisis when local communities looked to companies to feed the hungry and invest in social development (Newell & Muro 2006). In Zambia, mining companies had operated within the

framework of the racist 'colour bar system' to meet the social welfare needs of mining communities since at least 1929, but the responsibilities changed considerably with nationalisation of foreign-owned businesses in 1968. Nationalised mining firms and the new parastatals were given very clear social development mandates including job creation and subsidised services for the poor, but this changed again with the economic reforms of the 1980s (Noyoo 2007). In recent times, factors such as declining confidence in the state as a development agent, growth in private investment due to deregulation, the central role played by business in economic growth, and private sector delivery of developmental functions (e.g. utilities, health, education) have all served to broaden the array of expectations society has of business.

What these and other histories (e.g. Fig 2007, Robins 2007, Glover 2007) highlight is that while definitions of responsibility shift, the idea of companies having responsibility towards society remains constant. These shifts can create the impression that corporate responsibility is a fad. But more accurately they reflect the array of internal and external, local and international, social and economic, cultural and political factors that influence what constitutes the responsibilities of companies. One only has to consider the changing attitudes towards security of employment or corporate taxation to see how one era's expectations become controversial a generation later. While various overarching theories to define corporate responsibility have been proposed (e.g. Carroll 1999, Davies 1973, Berle & Means 1932), in reality the scope of corporate responsibility is set by, or negotiated within, the predominant political economic narratives of the age. At issue is not whether change happens, but how, and for whose benefit.

Despite the evidence that the responsibilities of corporations shift over time, corporate responsibility theory has failed to produce a substantive theory of change. The analysis other disciplines bring to business' relationship with society are not widely used in corporate responsibility theory (Levy & Newell 2002; Blowfield 2005). For instance, there is a considerable body of scholarship about business and international development, concerning areas such as corporate imperialism, and influence over newly independent post-colonial states (Newell & Frynas 2007), but it has not significantly influenced discussion about corporate responsibility and poverty.

There are exceptions such as Ruggie (2003) who draws on Polanyi's theory of embedded and disembedded economies to explain general shifts in the nature of the business-society relationship: "[Corporate responsibility] may be seen as a voluntary effort to realign the efficiency of markets with the shared value and purposes that societies demand, and that markets themselves require to survive and thrive." (cited in Nelson 2007, p 58) But more typically, the responsibilities of companies are presented as ahistorical and non-ideational. Shifts over time are treated as normative, and there is little attempt to explain why, for instance, the radical agendas of the 1930s have been replaced with something much less ambitious in recent times (Ireland & Pillay 2007). Absent any structural analysis of the business-poverty relationship, what we are left with is explanations of corporate responsibility as management practice wherein poverty is presented as a problem suited to technical, instrumental solutions.

2.3 Corporate responsibility as management practice

Khurana (2007) says that one of the most significant changes in business has been the role of the manager. He argues that the emergence of management theory as something to be taught in public universities was because of concerns that the relationship between

business and society was being poorly and damagingly handled, and that managers needed to be educated to be arbitrators between the competing claims of different constituencies – what would now be called stakeholders. He goes on to say that this idea of management for the public good has been lost as managers have become “hired hands” serving the interests of investors.

When business is discussed as a development agent, and ascribed a role in combating poverty, this might be interpreted as a return to the idea of management for the public good. There are difficulties with this interpretation, not least that in important jurisdictions the corporate executive is legally obliged to prioritise the interests of owners. But setting these aside for the time-being, it is worth examining the challenges being assigned to management when it comes to business and poverty.

Kramer & Kania (2006) make the important distinction between ‘defensive’ and ‘offensive’ corporate responsibility. Defensive strategies are those intended to address a company’s vulnerabilities and external risks, help protect its reputation, and reduce its legal liabilities. The codes of practice used to manage issues from human rights to sustainable forestry are examples of defensive corporate responsibility. An important characteristic is that they address problems of business’ own making. Offensive strategies, by contrast, address issues where business is not necessarily being blamed. They involve companies in investing their resources and competencies, sometimes alone, sometimes in partnership with others. Funding the construction of a local school, or promoting the use of local entrepreneurs as suppliers are examples of offensive corporate responsibility. Defensive corporate responsibility is able to protect a company’s reputation, but does not distinguish it. Offensive corporate responsibility can distinguish that reputation, but does not protect it.

Most of the examples of corporate responsibility in practice used in this chapter can be described as either offensive or defensive. The four ways that business can affect poverty identified by Nelson (2007) - legal compliance; control of risks, liabilities, and negative impacts; charity and community investment; and creating new markets and social value – can be divided between these two categories, as can the options for engaging in poverty alleviation highlighted by the Center for Global Development (2007): compliance with standards, charitable giving, committing resources, fostering entrepreneurship, and advocating for development. However, there are limits to the usefulness of the offensive/defensive distinction. First, it explains why a company might want to respond (the instrumental value), but not what issues it should take responsibility for from anything other than a commercial perspective. Second, it does not adequately accommodate what we will see is a significant set of company responses where business is neither the cause of nor a solution to poverty, but where it is its victim (Section 3.3).

2.4 Business practice and theories of development

The distinction between defensive and offensive types of corporate responsibility tells us something about why companies choose particular approaches, but emphasis on the business rationale alone offers little insight into what business’ developmental role could or should be. The potential trap here is that the scope of companies’ responsibilities comes to be defined from within the framework of management theory, rather than that of development. Yet the development agent role can be constructed quite differently depending how we think about development. For example, Utting (2007) discusses the relationship between corporate responsibility and an

equality/equity approach to development. If such an approach were used to inform business strategy, then the responsibilities of business would include aspects of social protection, rights, empowerment, and redistribution. Consequently, as part of a commitment to social protection, for instance, companies would exhibit responsibility in areas such as occupational health and safety, labour rights, security of employment, and social insurance. As part of a commitment to empowerment, companies would help mobilise the poor, and create opportunities for the poor to engage with business.

As later examples will show, current approaches to corporate responsibility as management practice are stronger in some areas than others. For example, for all the widespread adoption of core labour rights into the responsibility discourse, meaningful interventions have proved difficult, especially on issues such as freedom of association, and the rights of women. The redistribution element of equity is largely absent from corporate responsibility practice, even though returns to capital are outpacing returns to labour, and global demographic and climate trends make it imperative that issues such as economic opportunity, and social welfare are addressed (Utting 2007). Moreover, the role of business looks different again if one emphasises the rights-based, empowerment, or neo-liberal elements of development agendas. However, the distinct responses demanded by such differing ideas of development are often blurred in business-poverty discussions, something that can lead to unwarranted criticism and praise of the private sector's role (Bond 2006).

International agencies such as UNCTAD, UNDP, WTO, the World Bank, and OECD have set out various ways business can help alleviate poverty (Kolk & Tulder 2006). For example, the ILO highlights low wages and vulnerable employment as causes of poverty, OECD stresses the consequences of short-termism amongst multinational corporations, and their abuse of political and economic muscle, while UNCTAD concentrates on the importance of backward linkages, and embedding companies into local economies. UNIDO distinguishes between the substantive dimension to corporate responsibility (i.e. the particular issues that get addressed), and the process dimension (the ways business goes about addressing these issues, and identifying the boundaries of accountability) (Nelson 2007). Various international organisations emphasise the importance of this process dimension as a determinant of the effectiveness of poverty interventions, including support for the self-organisation of the poor at community level, a cognisance of local conditions, and cross-sector coordination (Kolk & Tulder 2006). For example, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy sets out both substantive issues (employment and security, education, health, and the general well-being of children), and process ones (helping the poor have a voice in their community and workplaces; respecting human dignity).

However, there is a mismatch between this kind of aspirational development agenda and what companies are actually doing as development agents. The array of substantive issues being addressed is incomplete, but is nonetheless more comprehensive than that of process ones which may not be included at all (ibid.). Various questions arise from this observation. Is it the case that business has an ad hoc poverty agenda, and if so how has that come about, and what are the likely outcomes? Can business be more effectively integrated into established agendas, and what would this take? Or is it that business is already part of an alternative poverty agenda, and what are the implications of this? We will explore these questions in the coming sections, but the distinctions are already evident in current debates. Easterly (2006) stresses the essential role business has to play in addressing poverty, but there are those who treat business' participation as

a modification to established development models, and those who regard it as a distinct development approach. Government agencies such as Britain's DFID, for example, view corporate responsibility as a specific element of growth-oriented development, a way of ensuring that the benefits of private sector growth are more inclusive, equitable, and poverty reducing (Newell & Frynas 2007). In this interpretation, the private sector is one element whose role needs to be engineered, i.e. directed and controlled through a mix of incentives and regulation. However, business has also been portrayed as a developmental catalyst, and a determinant of the function of other institutions. For example, the World Business Council for Sustainable Development (2007) describes poverty in terms of lack of wealth, jobs, small enterprise, affordable education, economic success, and labour. Reflecting an ideological thread that runs from Hayek to Friedman to Easterly, WBCSD argues that business has a central role to play in providing the resources and technologies that will address these deficiencies, while the role of government should be to establish the framework conditions for business to play its role, and to enact policies whereby people can use the benefits of private enterprise involvement to create sustainable livelihoods.

3 THE BUSINESS-POVERTY FRAMEWORK

Irrespective of whether we consider business to be a development tool or a development agent, to have a bit-part or the starring role in tackling poverty, we need to understand that there are multiple facets to the business-poverty relationship. This is implicit in the distinction between the defensive and offensive approaches to managing corporate responsibility mentioned previously where companies adopt different strategies according to what they are trying to accomplish. However, if we look at business from the viewpoint of society, a two-dimensional model does not capture the variety of ways that business affects or is affected by poverty. To do this we need to give equal consideration to business as a cause of poverty, its victim, and a solution. In this section, I explore these three dimensions, examining the claims, and discussing examples of business as a development agent in consciously addressing the resultant poverty issues.

There is a fourth dimension that is not explored, but that is worth noting, i.e. that business can be indifferent to poverty, seeing it as neither a threat nor an opportunity, but simply as something that is not factored into decisions. Thus, for instance, decisions about investment are not typically based on their impact on poverty, but what will bring the best return on investment. Sometimes poverty might be appraised as an opportunity in those deliberations (e.g. low labour costs), or it might be a barrier (e.g. weak infrastructure), but in many instances (perhaps in the majority of investment decisions) poverty is not a consideration, and business positions itself as a bystander. This is part of a wider debate about the consequences for advanced economies of the wealth divide between rich and poor nations, and reflects the belief of some that if the richest nations ceased all economic interaction with poor ones, standards of living in the former would scarcely be affected (Kay 2004). In many ways, the examples in the following sections are part of an argument about whether that is a tenable position, commercially and ethically.

3.1 Business as a cause of poverty

In the free market system, an inefficient company has the potential to cause poverty if it fails to generate wealth, create jobs, and provide goods and services (i.e. when it fails as a development tool). However, it is the way seemingly efficient companies can cause or

exacerbate poverty that is of interest here. At one level, some argue that the very functioning of international markets may exacerbate poverty, although for reasons too complex to do justice to here (see for instance the very different perspectives of Wallerstein, Negri, Stiglitz, and Henderson). Equally, business and government in developed economies have been accused of protecting parts of their markets from developing economy competition, but also for denying developing economies the kind of protections some feel are essential for economic development (Chang 2002).

Advocates of free markets having a singularly important role *pace* the Washington Consensus, make the case that business cannot cause poverty if it acts rationally because the market is the most effective way of determining price and allocating resources. Even if one accepts this, power asymmetries that favour certain business actors mean that there are wide disparities in how the proceeds of trade are distributed, and that poor producers in particular (e.g. marginal smallholder farmers) can find themselves selling their produce for even less than the cost of production (Raynolds et al 2004). Similarly, the power some brand-owners hold as gatekeepers to lucrative consumer markets means that some manufacturers have limited bargaining power regarding price or specification, making labour one of the few areas where management can influence profitability. Hence, low wages, long hours, and other abusive labour practices are the norm in places where low-skilled labour is plentiful, the opportunity cost of relocation is low, and law enforcement is lenient (Graham & Woods 2006). As one buying agent in Hong Kong said of Chinese manufacturers, “*Suppliers still have places where they can cut fat, but the easiest fat to cut is workers’ wages.*” (Chan & Siu 2007: 8)

In the long-run, developing economy labour markets may obey the scientific laws claimed of liberal economics, and if so wages will rise with the overall upgrading of a country’s economy. But in the short term, wages at less than the cost of survival and reproduction put enormous burdens not only on individual workers, but also their families and social networks. For example, in a sample of factories producing for Wal-Mart, the hourly wage is less than the legal minimum, and overtime hours exceed the legal maximum (Chan & Siu 2007). Only by working excessive overtime (e.g. 12 hour days with only 1.5 days off in a month) can they achieve earnings approximating a living wage. Furthermore, these burdens are not evenly spread across the economy. For example, in Outer Shenzhen, China, most low-skilled jobs are taken by migrants, while non-migrants have higher status positions. But while the latter have experienced significant increases in income since the 1990s, migrant pay has been stagnant in real terms (ibid.). Moreover, migrants in China are expected to pay for health care and education as responsibility for social services lies with their home communes, not their temporary municipalities where they are employed (Pearson 2007).

Sudden injections of wealth, and unequal distribution, can have long-term consequences. For example, the promotion of cocoa production in parts of Sulawesi, Indonesia, in the 1990s together with weak enforcement of traditional land rights, allowed certain migrant ethnic groups to prosper using land alienated from the indigenous population (Blowfield 2004). Other impacts of private sector activity are also experienced differently by different sections of the population. For example, labour markets are gendered institutions that impact differently on women than men, not least because of the former’s need to balance productive and reproductive responsibilities. Poverty as experienced by women is not just a matter of unequal wages, but also relates to issues such as childcare, maternity leave, and care of the elderly. Even if wages are adequate, working conditions safe, and overtime properly managed, women can be disadvantaged because companies do not understand either the

social environment that may be essential to business sustainability, or women's unique role in maintaining it as the main providers of reproductive services from child bearing, to nurturing, to replenishing individual family members' labour power on a daily basis (Pearson 2007).

These are examples of the substantive dimension to business' relationship to poverty, but we should not forget what we earlier called the process dimension. In discussing the equity approach to development, I touched on empowerment, and poverty is often associated with disenfranchisement, marginalisation, and the lack of capacity or opportunity to advocate for one's own interests. Freedom of association and collective bargaining are amongst the rights business has been accused of interfering with, the absence of which can perpetuate poverty. But there are other ways that companies can affect the process of poverty alleviation. For instance, low wages and the avoidance or evasion of corporate taxes deny governments the resources to invest in the poor (Jenkins 2005), while practices such as short-term contracts with suppliers ultimately limit the opportunity to build up the capacity of poor producers and their communities (MacDonald 2007).

There are other areas where business relates to poverty, if not as the direct cause, then at least as the apparent beneficiary. The poverty that is behind child labour, forced labour, and labour trafficking is something that has benefited business in some circumstances, even if few CEOs today would endorse the sentiment of Lord Cadbury in 1909 that slavery is essential to his company's competitiveness (Blowfield & Murray 2008). Yet, in an indirect way, business is held responsible for these types of poverty, not just because it is seen as a beneficiary of the global economic system within which such poverty exists, but because it is associated with the changing patterns of governance that are characteristics of that system.

Bad (i.e. corrupt) and weak (i.e. ineffective) government is one cause of poverty, and business has variously supported, tolerated, and resisted such practices. There are various examples of business colluding with government against the interests of the poor (e.g. Fig 2007b, Frynas 2006), but they are insufficient to draw generalisable rules. Corporate ambivalence in this regard can be seen from the positions taken by the private sector during the apartheid era in South Africa where parts of the business community both supported and undermined the government (Fig 2007), and in some circumstances the interests of business and the poor with respect to good government may be closely aligned.

However, while good public governance is generally accepted as essential to alleviating poverty, it remains to be seen if that is true of the alternative models of governance that business is part of. Companies have played a part in the process of deregulation, and the subsequent emergence of an international regulatory system that is highly skewed toward the protection of capital and non-human corporate assets (Graham & Woods 2006). For Ruggie (2003), companies must play a role in redressing the imbalances of the global governance system, and "*the key governance question before us*" is how much burden companies, and in particular the kind of voluntary efforts associated with corporate responsibility management, should bear. Wrapped inside that question are issues of regulatory capture by the private sector, and how well self-regulation and voluntary regulation protect the interests of the poor. We can start to unravel this by looking at examples of where business is acting as a development agent in tackling some of the consequences of its own behaviour.

3.2 Examples of business' response

The specific relationships between business and poverty are important to understand because they affect how companies behave as development agents. To date, when business has been accused of causing poverty, if it has not denied the charge (as has typically been the case with regard to disinvestment, relocation, and corporate tax avoidance and evasion), it has for the most part sought to protect its reputation, notably by adopting new regulatory systems promising some form of social accountability. There are a few examples where new models of private enterprise have been developed to address the conditions of the poor. And there are cases where business is attempting to ameliorate the negative effects of global competition. The following three examples highlight what is meant by these different approaches.

3.2.1 Multi-stakeholder regulation

Codes of conduct applied through supply chains, and setting out requirements to do with labour conditions and worker rights are an important way business is responding to charges that it is a cause of poverty. These codes address issues such as low wages, excessive overtime, the use of forced and child labour, occupational health and safety, security of employment, discrimination, and the right to organise: in other words, substantive and process dimensions to poverty. They are implemented in various ways (e.g. company codes, industry codes), but the most significant approach in the development context is the use of multi-stakeholder regulation which represents a new class of governance institution that involves private sector and non-government stakeholders in the negotiation, monitoring, and resolution of labour issues (O'Rourke 2006). Examples include the Fair Wear Foundation, the Ethical Trading Initiative, Worldwide Responsible Apparel Production, and the Fair Labor Association. They are part of a proliferation of non-government systems of regulation that span industries from garments, shoes, and toys, to forest products, coffee, oil and gas, and diamonds, and represent perhaps the most dynamic contemporary experiments in global governance (ibid.).

These systems are messy when compared to conventional government-stipulated regulation because they involve multiple actors in new roles and relationships, and new processes of standard-setting, monitoring, benchmarking, and enforcement. The codes are voluntary in the sense that there is no legal requirement to adhere to them, and adoption typically depends on the leverage certain companies have over their suppliers by virtue of their position as gatekeepers to the main consumer markets. Today, some of the world's leading brands are associated with multi-stakeholder regulation, including Nike, adidas/Reebok, Gap, Wal-Mart, H&M, and Tesco to name but a handful. The actual impact of multi-stakeholder regulation is discussed later, but its strength in theory is that it leverages multiple sources of influence and legitimacy. Studies of code implementation in Mexico and Guatemala, for instance, show the importance of countervailing power at various levels, notably sustained international pressure by NGOs and international trade unions (not only on companies, but also to ensure other types of labour standard are included in international treaties and trade agreements), and local level engagement in negotiation, monitoring, and remediation by workers and their support organisations (Rodríguez-Garavito 2005). However, research in China has also shown that companies themselves have an important role to play in building countervailing power by supporting, protecting, and funding worker participation, and by helping open small spaces in oppressive regimes for workers to participate in factory decisions (O'Rourke 2006).

3.2.2 Market redistribution through fair-trade

Fair-trade is concerned with the bias of markets against the poor, in terms of both the difficulties small producers have in accessing international markets, and the unequal distribution of value along the trading chain. Although it initially grew as part of a network of alternative trade producers, buyers, processors, and retailers, the term fair-trade today is mostly associated with a product labelling initiative that ensures a place for the products of marginalised producers in developed economy markets. While there is tension within the fair-trade movement between those who see it as a tool for radically modifying the dominant economic model for the benefit of the poor, and those who see it as an entry point for products from developing economies (Raynolds et al 2004), fair-trade labelled products today succeed because they respect the many of the rules, norms, behavioural expectations, and cultural assumptions of the wealthiest markets. As Leigh Taylor (2005) observes, the challenge for fair-trade is to be in the market but not of it.

Distinguishing features of fair-trade include a focus on the products of small-scale, often family-based producers (although over time fair-trade buyers have also sourced from plantations and commercial farms); and the organisation of producers into politically independent, democratic associations. Fair-trade buyers agree to enter into long-term contracts (more than one harvest cycle) with these organisations, and to pay farmers at least the minimum price that Fairtrade Labelling Organisation International has calculated represents a fair return. Buyers also agree to pre-finance farmers so they can avoid falling into debt, to pay for producer certification, and to pay a portion of all sales to producer organisations as a social premium to help empower and develop the producer community.

Poverty, from a fair-trade perspective, is therefore not only a factor of financial wealth, but also of impersonal, commoditised relationships, power asymmetries within trading chains, lack of institutional capacity amongst poor producers, and the disadvantageous decisions producers make in consequence. Fair-trade challenges liberal economic assumptions that markets are impersonal and fair, and turns trade into a more personal relationship between grower, buyer, retailer, and consumer that requires a managed distribution of value-added is distributed along the chain (Leigh Taylor 2005). While this model is coming under pressure as mainstream demand for fair-trade products from processors and retailers increases, it is noticeable that features of the fair-trade system (e.g. long-term contracts, capacity building, and buyer-producer trust) are finding their way into larger companies' trading practices such as Starbucks' Coffee and Farmer Equity (C.A.F.E.) Practices (Macdonald 2007).

3.2.3 Mitigating the downside of global competition – the Multi-fibre Alliance

When the Multi-fibre Agreement, which had governed garment and textile imports to the EU and US since 1974, ended in 2005, quotas that had helped developing economies build up export-oriented garment industries came to an end. This raised fears that China would dominate garment production, and some predicted a 'great garment massacre' with nearly half of the world's 250,000 garment factories vanishing. If the transition to a post-MFA world was not properly managed, this threatened to have negative consequences for workers, communities, and local and national economies. It could also leave business vulnerable to accusations of culpability for these impacts, and might further erode trust in the agenda of development through trade (Blowfield & Murray 2008).

To address this, a grouping of over seventy companies, trade unions, NGOs, and multi-lateral institutions was formed in 2004. Known as the Multi-fibre Alliance Forum, it began by researching the potential consequences for developing economies once the MFA ended, from which came the Collaborative Framework for Guiding Post-MFA Actions. These are proposals for national and local initiatives by companies, governments, and multi-stakeholder partnerships. They are being used in initiatives, notably in Bangladesh and Lesotho, to build sustainable garment industries that do not depend on exploitation of the poor. These involve local manufacturers, unions, and NGOs keen to protect their interests, but equally buyers such as Carrefour, KarstadtQuelle, and Levi Strauss.

3.3 Business as poverty's victim

One only needs to look at the facets of poverty set out in the Millennium Development Goals to see how business can be a victim of poverty. The goals are indicators of human development, and failure to achieve them is indicative of the insufficiencies that can hamper business in developing economies. For example, the fact that half the world lives on less than two dollars a day, and 1.1 billion people live in 'extreme poverty' - less than a dollar a day - shows how much greater the market for goods and services could be if only people had more income. The number of children who do not finish primary school is a warning of how difficult it can be for companies to fill even relatively low-skilled positions. Women are less likely to get education, more likely to work at home, and less likely to obtain full-time salaried positions, and gender inequality and disempowerment can harm companies that need educated and independent workers and consumers.

Goals 4, 5, and 6 of the MDGs concern health (child mortality, maternal health, and major diseases such as HIV/AIDS respectively), and high morbidity, failing health care systems, malnutrition, and disabling or terminal diseases can all harm business. Companies such as SABMiller in South Africa have invested in programmes to prevent AIDS and provide anti-retroviral drugs because of the attrition the disease was causing amongst experienced personnel. Wall (2007) shows how in Kazakhstan, oil companies are having to compensate for the declining quality of state health care provision.

Weak public governance and the failure of government as development agents are underlying themes of the MDGs. They are equally factors in business being a victim of poverty. Though not explicit in the goals themselves, the idea that the private sector can compensate for weak government is evident in crucial agreements and policies surrounding the MDGs. For example, the 2002 Monterrey Consensus which announced US support for the MDGs, bound the MDG implementation process to the mainstream neo-liberal strategic and policy framework (Bond 2006). To some degree, the distrust of government has been beneficial for business because important elements of the MDGS such as the provision of safe drinking water (Goal 7: Sustaining the environment), have in part become the responsibility of the private sector. However, to the extent that weak governance is associated with poor health and education, inadequate infrastructure, corrupt institutions, poorly managed economies, and under-developed small and medium-sized enterprises, it can be viewed as harmful to business (Nelson 2007).

According to Saith (2006), one of the problems with the MDGs is that they are silent on certain important dimensions to global poverty. Rising inequality, for example, is

something that poses particular threats for business. In the US, 20% of the population account for 50% of household income; a figure similar to the situation in 1900. In some poor nations such as Zambia, the richest 20% have a 56% share of income, and in Brazil it is 64%. If middle-income countries such as South Africa, Peru, and the Philippines do not address inequality, they could double their GDP while still having 10% of their population living on less than \$2 a day (Medeiros 2007). This situation creates all manner of uncertainties that risk averse companies might rather not face such as mass migration, conflict over natural resources, and political unrest. Moreover, it should not be forgotten, that an earlier era of economic globalisation in the 1900s came to a halt because of a political backlash against globalisation's distributional effects (O'Rourke & Williamson 1999).

3.4 Examples of business' response

There are innumerable examples of companies addressing issues which could affect their long-term prospects. Anglo American in South Africa is one of the many companies that has education programmes to help it attract the brightest high school graduates from all walks of life (Rajak 2006). Cisco Systems has a well-established network of academies worldwide that provide it with a steady stream of workers trained in its systems while providing new opportunities to young people (Center for Global Development 2007). We have already mentioned examples of health care programmes. Raytheon, the weapons systems company, not only promotes teenage numeracy, it is an ardent supporter of gay rights because it sees this as part of a strategy to attract qualified engineers from all walks of life.

3.4.1 Combating weak governance – the Forest Stewardship Council

The Forest Stewardship Council was established in response to the failure of conventional approaches to regulating forest management, particularly in parts of the developing world where tropical forests are typically located. The FSC is both a set of principles for forest management, and an institutional partnership that was amongst the earliest to unite the private sector with environmental NGOs, and remains one of the few to have a balanced representation of rich and poor countries. The partnership was established to find solutions to promote the sustainable management of forests. It provides a certification system, and a label that can be used on products using timber from FSC-certified forests. It has over 460 organisational and private members, and altogether there are more than 90 million hectares of FSC certified forests in over 70 countries.

The FSC offers developmental benefits (e.g. labour rights are included in the FSC standard; it can help provide secure land access for indigenous people; it has created new spaces for local involvement in forest policy), but its main achievement has been to safeguard companies from the risks arising from weak governance of the forest resource (e.g. damage to reputation; uncertainties about supply) (Leigh Taylor 2005).

3.4.2 Unsustainable supply chains – the Cocoa Partnership

In January 2008, Cadbury launched its Cocoa Partnership “to secure the economic, social and environmental sustainability of around a million cocoa farmers and their communities in Ghana, India, Indonesia and the Caribbean.” With an initial investment of £1 million, over ten years Cadbury will spend £44 million. The

Partnership came about after Cadbury-commissioned research showed that the average production for smallholder cocoa farmers in Ghana had dropped to just 40% of potential yield, and that cocoa farming had become less and less attractive to the next generation of farmers despite rising farmgate prices. If this situation continued, Cadbury risked long-term shortages in a vital commodity.

There are numerous reasons for this, not least the fact that economic structural adjustment policies that became a requirement of receiving foreign aid in the 1990s, required governments to seriously cut back on the kinds of technical and market support that they and overseas cocoa buyers had invested in over the years. Elements of the Partnership to do with increasing yield and improving bean quality are in some ways a return to a pre-structural adjustment model of social and economic development when there was a more interventionist approach to addressing rural communities' needs.

This impression of a step back to step forward is reinforced by other Partnership elements. For example, investment in education, libraries, and safe drinking water. But rather than depend solely on the State, the Partnership involves farming communities, NGOs, the UN Development Programme, and government agencies. It also includes some more modern elements of community development such as microfinance, support for entrepreneurs, promoting crop diversification, and biodiversity projects.

3.4.3 Support for the MDGs – UN Global Compact

The United Nations Global Compact was established in 2000 as a direct result of then UN Secretary General, Kofi Annan's call for business leaders to partner with UN agencies, and civil society to support universal environmental and social principles. It is founded on the belief that the neglect of social and environmental protections poses a threat to the international economic order (Kell & Levin 2003). Much of the discussion about the Compact has concentrated on the commitment companies make to uphold the its ten principles, and if that were the sole focus it would make more sense to consider the initiative under the category of business as a cause of poverty. However, another of the Compact's aims is to increase business' commitment to reaching the Millennium Development Goals several of which, as already discussed, relate to business as a victim of poverty. *"The ultimate measure of success for the initiative is the degree to which it promotes concrete and sustained action by its varied participants, especially the private sector, in alignment with broad UN objectives, the [Compact's] principles, and the international Millennium Development Goals."* (ibid.: 152)

To further the MDGs, the Compact supports multi-stakeholder collaborative development projects. The international development perspective is further stressed in the Global Sustainable Business initiative that has emerged from the Compact. Companies that sign up to the Compact make a clear statement of support for the principles, signed by the CEO and endorsed by the Board. They must include some reference to the progress they are making towards this commitment in their annual report or other public documents, including how they are internalizing the principles in their operations. However, in 2006 nearly forty percent of signatories were not communicating progress against the Compact's principles, and the contribution companies are making towards achieving the MDGs is extremely difficult to discern (Blowfield & Murray 2008).

3.5 Business as solution

Following a period when business was often portrayed in the media and through campaigns as exploitative of poverty, or to a lesser degree its victim, increasing attention is being paid to the idea of business as a solution. This is not simply a restatement of the centrality of business to the capitalist economy as the source of employment, goods and services, and wealth. Rather, it is the belief that business can consciously invest in ways that are simultaneously commercially viable and beneficial to the poor. This relates to and overlaps with ideas of social entrepreneurship, a concept with many definitions, but where typically business methods are employed for social development ends but profitability is not a defining criteria (Dees 1998, Bornstein 2004, Seelos & Mair 2005). In contrast, Hammond, Hart, and Prahalad in their influential work on the 'fortune at the bottom of the pyramid' emphasise that there are genuine commercial, market-based opportunities to be had by targeting the poor (Prahalad & Hart 2002, Prahalad 2005, Hart 2005, Hammond et al 2007). They argue that whereas the richest 0.8 billion people represent a largely saturated, and over-served market, and despite there being significant opportunities to serve the 1.5 billion emerging middle class, the greatest unexplored opportunity is the market of 4 billion people who individually or as households have low incomes, but as a group account for a significant percentage of national income and expenditure. For example, in Asia those at the bottom of the economic pyramid make up over 83% of the population, and account for nearly 42% of national income; in Africa, they make up 95% of the population, and account for over 70% of income (Hammond et al 2007). All told, it is estimated that the poorest 4 billion people represent a market worth \$5 trillion (ibid.).

These figures are controversial. Prahalad and Hart (2002) initially defined the bottom of the pyramid as those with incomes of less than \$1500 annually, but Hammond et al (2007) raised this figure to \$3000. As Karnani (2007) has stressed, there is a significant difference in terms of market opportunity between someone on the equivalent of \$8 a day, and someone on little over \$1 (i.e. \$500 per annum). It can also be misleading to say, for example, that Belarus and Bolivia have a similar percentage of population classified as living at the bottom of the pyramid when in the former over 50% have incomes between \$2000-3000, and almost nobody earns less than \$1000, while in the latter roughly 60% have incomes less than \$1500, and over 25% earn less than \$1000 (figures from Hammond et al 2007). Nonetheless, the insight that the poor control considerable wealth is important because it suggests that what is considered the untapped purchasing power at the bottom of the pyramid provides an opportunity for companies to profit by selling to these unserved or underserved markets.

If that was the extent of the bottom of the pyramid model's proposition, it would have little direct relevance to the idea that business can be a development agent because all it would imply is that the poor represent a rational, if overlooked, business opportunity. However, bottom of the pyramid advocates say that by meeting the needs of the poor, business can increase their productivity and incomes, and be an engine of empowerment, not least by allowing them to enter into the formal economy. In other words, by selling to the poor, companies can help eradicate poverty, and Prahalad (2005) particularly emphasises the role multinationals can play in this by allowing the poor to benefit from both the quality of their products and the efficiencies of their systems. A criticism of the bottom of the pyramid theory is that it treats the poor as consumers, when in fact they might be better served if they had better jobs or access to markets as producers (Karnani 2007). It is inaccurate to say that bottom of the pyramid theory entirely ignores the role of the poor as producers, and organisations such as the

Shell Foundation (e.g. through their collaboration with the retailer Marks & Spencer to promote flower growing groups on the Agulhas Plain, South Africa), and others involved in Business Action for Africa acknowledge bottom of the pyramid ideas, but are focused on the production opportunities for the poor, and especially the promotion of entrepreneurship.

However, Prahalad clearly feels that their role as consumers is very important. To understand this argument, one needs to consider the situation facing many poor people. Not only do they have low incomes: a) they have significant unmet needs, b) they are typically part of an informal or subsistence economy (the ILO estimates that 70 percent of the workforce in developing economies is in the informal sector), c) they are part of high cost micro-economic systems where they pay more for goods and services (e.g. water is more expensive in a Nairobi slum than in central New York), d) they are often 'prisoners' of local monopolies (e.g. moneylenders), and e) they lack access to quality products. Therefore, according to Prahalad, if companies compete to serve the poor, the upshot will be lower living costs (e.g. because interest rates will fall), increased productivity (e.g. because if medicines are more affordable, people will be healthier), and new employment opportunities (e.g. from selling the products).

One of the issues in relation to this model as a conscious approach to tackling poverty is the degree to which, having identified the opportunity, the market alone will deliver developmental benefits. The difference between Prahalad and Karnani is to a degree a moral one, with the former reluctant to make choices about what the poor should have access to, and the latter arguing that high spending by some poor people on tobacco, alcohol, and gambling suggest they do not always make 'wise' purchasing decisions. This tension is evident in case studies of the bottom of the pyramid (see for instance the contributions to Rangan 2007), but if we are thinking of business as a development agent, then it is important to distinguish between companies that serve the poor, and ones that factor poverty alleviation outcomes into their decisions and strategies. This is not straightforward. For example, at first glance it may seem that Hindustan Lever Limited's supply of shampoo to rural women is less beneficial than Aravind's provision of low cost cataract surgery, yet this conclusion ignores the increase to rural women's incomes arising from new opportunities to sell shampoo and other household items. However, in the business-poverty context, the key point is that financial performance ultimately should be less important an indicator than social outcomes.

This is not to say that companies should approach poverty as a social enterprise where profits are unimportant (cf. Karnani 2007), although successful examples of targeting the poor such as Aravind in India, HealthStore Foundation in Kenya, and the Grameen Bank in Bangladesh have been run on a not-for-profit basis, or involve some form of subsidy or alternative funding. However, to be profitable can require unconventional business models, not only in terms of understanding the market, or designing products, but equally in the collaborations that are required. There are various examples of companies collaborating with NGOs to identify needs, and deliver products: these include Telenor and Grameen's collaboration to create Grameen Phone, ICICI Prudential's with women's groups in India on insurance products, and Accion International's collaboration with ABN Amro on microfinance. Bruggmann & Prahalad (2007) view these collaborations as part of a trend towards 'co-creation' where business and NGOs create hybrid business models suited to the very different conditions for commercial and social success when dealing with poverty.

To a degree, these collaborations are about scaling up the success of NGO innovations as could be said about the entrance of commercial banks such as Citigroup and Deutsche Bank into the world of microfinance. However, companies such as Standard Chartered are bringing new capacities to existing sectors (e.g. raising capital for microfinance on international markets), while partnerships such as that between World Diagnostics and Ugandan NGOs allow existing networks to be used to provide new types of health service. This is not without its problems. For instance, ICICI's collaboration with women's self-help groups in India was criticised by some NGOs for undermining their wider social development goals, and there will be fundamental shifts in relationships as collaborations require NGOs to privilege task-driven partnerships with companies over ideology-driven dialogues (Brugmann & Prahalad 2007). Moreover, such partnerships are becoming a defining (and perhaps legitimating) feature of initiatives affecting the poor's access to, and control over, essential resources such as water privatisation, projects associated with the Clean Development Mechanism, and now forest management in the context of voluntary emissions trading. We discuss the implications of this kind of change later, but before exploring particular examples, we should recognise that in emphasising partnerships with large companies, we risk further marginalising the contribution local small and medium-sized companies make, and the local partnerships they have historically been part of. The role of SMEs in economic growth is well documented, but their role as development agents is only gradually being discovered (see for instance Blackman [2006] on the environmental impact of SMEs, and the emerging work of UNIDO at www.weplayfair.com), and for that reason is not dealt with in any depth in this chapter.

3.6 Examples of business' response

Microfinance is perhaps the most widespread example of business providing a solution to the problems of the poor. Put simply, it is a system that enables poor people without conventional collateral to access loans at affordable rates of interest, making them less dependent on traditional moneylenders, and providing them with a form of savings, insurance, and investment. In recent years, several commercial banks have offered microfinance services including Citigroup, Deutsche Bank, and ABN Amro. There are a number of examples such as ICICI Prudential, Hindustan Lever Limited, and Grameen Phone where the infrastructure developed for microfinance has been used to develop other services such as retail and distribution. Companies such as Coca Cola and Procter & Gamble have also invested in making their products available to the poor, and organisations such as KickStart (capital equipment), Freeplay Foundation (sustainable energy), and Aravind (healthcare) specialise in serving poor communities. Vodafone is amongst the telecommunication companies that has recognised the need of migrant workers to remit money home, and has launched its mobile phone-based M-Pesa remittance system in Kenya, and is exploring a system for international remittances with Citigroup. Companies as diverse as Philips, Intel, Infosys, and Godrej have also developed new products tailored to the needs of poor communities.

A large number of companies invest in building the capacity of local entrepreneurs (e.g. in response to government policy such as the Black Economic Empowerment programme in South Africa; as a result of business initiatives such as Business Action for Africa), and creating markets for their produce. Organisations such as Market for Change, and the Shell Foundation are building on this by helping link small businesses with buyers. In a different way, the consultancy Accenture is giving the private sector in developing economies access to management and technological expertise through its Accenture Development Partnerships programme.

3.6.1 Technology to meet the needs of the poor - Freeplay

Freeplay is a response to the fact that 35% of the world does not have access to mains electricity, and that poor people often depend on high cost generators and disposable batteries. The company's first product was a wind-up radio, and it now makes radios, lighting, and portable energy supplies. Developing economies are an important part of its market, but require a different business model. Rather than sell directly to communities, its foundation (the Freeplay Foundation) collaborates with organisations that have an overlapping social mission such as UNICEF, UNDP, Care, and the International Red Cross. For example, the Rwandan genocide left a demand for improved communication, and in 2001 the Foundation began working with orphans to design an affordable, reliable radio using self-sufficient electronics. The Foundation provided 1600 radios, working with international and local broadcasters on content, and with NGOs such as World Vision, PATH, and Action Aid, as well as companies such as DHL and Unilever on distribution. The company has also started making its technology available to others, collaborating for instance with the One Laptop Per Child initiative in providing a power source for computers.

3.6.2 The carbon assets of poor regions – Merrill Lynch and Ulu Masen

In March 2008, investment firm Merrill Lynch announced it would invest \$9 million in protecting endangered forest in the Indonesia province of Aceh. In return it would get 500,000 carbon credits worth \$2 million a year for four years plus an option to buy a further \$1 million. The money will be invested in building the capacity of villagers to reduce their dependency on the forest by growing coffee, cocoa, or oil palm. The carbon credits can be sold or used to offset Merrill Lynch's own emissions as part of the growing system of greenhouse gas emissions trading. The credits meet the standards of the Climate, Community and Biodiversity Alliance, the members of which include large environmental groups such as Conservation International, The Nature Conservancy, and the Rainforest Alliance that also validate the credits of companies such as BP, Intel, and SC Johnson. But unlike those companies which are primarily interested in offsetting their own emissions, Merrill Lynch is investing in a model of what it calls 'carbon farming' where an economic value is attached to the societal value of storing carbon by planning or conserving trees. Under the Kyoto Protocol, it was not permitted to balance emissions with carbon credits generated from forest protection, but that is likely to change when the protocol expires in 2012, recognising that deforestation is a significant contributor to human-related carbon emissions. If that happens, credits that can currently only be traded on unregulated markets, could be traded on the more lucrative, regulated markets in Europe and Japan (and which are being considered in the US and Australia).

In some ways this is a very conventional development model because the money from Merrill Lynch will largely go to the Acehnese government to fund both alternative livelihood and forest conservation activities in Ulu Masen. It is similar in some ways to initiatives such as Plan Vivo where investors get credits for funds invested in conserving forests in Mexico, Mozambique, and Uganda, Fundo Bioclimatico in Mexico, or the work of Canopy Capital in Guyana which is paying towards the protection of the forest, in return for a share of the rights to its ecosystem services should these one day have a marketable economic value. Although they are different in detail (and are all largely untested), they represent part of a new trend in valuing the assets of poor regions, and rewarding the poor as environmental stewards. They raise

all manner of issues about equity, implementation, rights, sovereignty, and distribution of benefits, and perhaps beg the question whether business is acting as a solution to poverty, or the poor are solving a problem for business. But they are indicative of the new ways business is being portrayed as a development agent, and a source of innovation in tackling societal concerns.

3.6.3 Collaboration as a business model – the Shakti Project

A common theme in discussions about business serving the poor is that to be effective, companies need to enter into new partnerships, and develop new business models, so that they can understand and access poor communities. A well-documented example of this is the Shakti Project initiated by Hindustan Lever Ltd (the representative of Unilever in India). The company had a tried and tested distribution network for consumer products, but it only reached half of the 627,000 villages in rural India. Since 1997, it had tried to establish a network of distributors and sellers in villages, but in 2000 it decided it needed a different model if it was to penetrate these markets further. It decided to partner with the numerous women's self-help groups that had emerged from the boom in micro-finance. Successful groups were already strong local institutions who met and saved regularly, and that had their own networks. Their members were often a new breed of female entrepreneurs that were open to new income generating opportunities.

The pilot for what became Project Shakti started in 2000 in Andhra Pradesh. It brought HLL into partnership with the cooperatives that were federations of self-help groups, and the NGOs that helped build cooperative capacity. At first, the project was more successful in raising awareness of HLL brands than it was in raising group members' incomes, but removing the cooperatives from the chain, and providing direct support to the women raised sellers' profit margins, doubling their household incomes. The project now covers thirteen states, and has given HLL access to 50,000 new villages or one million homes.

4 ASSESSING THE BUSINESS RESPONSE

The previous discussion of business acting as a development agent provides a framework of the different types of interaction (i.e. based on cause, solution, and victimhood). What it does not reveal is: a) the conditions under which business will actively manage its relationship with poverty, and b) the effectiveness of its taking on a development role. It is this I turn to now.

4.1 Features of managing poverty

The business-poverty relationship can be the focus of different spheres of business activity such as core business operations, social investment and philanthropy, and policy dialogue and advocacy (Brainard 2006), and as the examples in Section 3 show, the actions taken can take a variety of forms (e.g. establishing and employing social and environmental standards beneficial to the poor; leveraging commercial opportunities beneficial to the poor; poverty reducing entrepreneurial activities [Center for Global Development 2007]). There are a range of approaches companies can adopt depending on the outcome sought, and echoing the situation in corporate responsibility management more generally, stakeholder engagement and partnerships with other companies and organisations from non-business sectors are common features of business' management of poverty. It is not my intention to discuss in any depth either

stakeholder management theory, or the different types of partnership.² Although as will be discussed in the section below on impact, the approach and language adopted by business is important, but the very adoption of an approach is predicated on certain conditions. The examples of business' response lend evidence to the speculation in Section 1.4 that business will for reasons of its own rationale tend to exclude legitimate elements of different development agendas. If we compare what business is actually doing with a framework of how business decisions affect economic development, there are a number of areas where companies are not acting as development agents (i.e. consciously managing their actions in the interests of poverty alleviation) (BSR & Accountability 2004; WBCSD 2008). These include job creation and loss, and the locating of facilities. This is not to say that business does not affect national economies in these areas, and the studies of Unilever mentioned earlier or of South African Breweries show how a single company affects local economies in terms of products, direct and induced economic consequences, financial flows, and local enterprise (Clay 2005; Kapstein 2008; BER 2008). But these are examples of business as a development tool, and do not explain under what conditions companies might act as development agents.

The examples in Section 3 suggest that there are three basic conditions that dictate under what circumstances business can take on the development agent role:

Condition 1: Business is more likely to act when poverty is associated with an identifiable risk to a company or industry, including risks to reputation, to the availability of commodities, to production, etc. This condition accounts for genuine innovations with respect to supply chain governance, and responsibility towards producing communities. It also accounts for some of the links created between companies and development organisations. Examples include the Fair Wear Foundation, the Ethical Trading Initiative, Worldwide Responsible Apparel Production, the Fair Labor Association, Starbucks' Coffee and Farmer Equity (C.A.F.E.) Practices, the Forest Stewardship Council, and Cadbury's Cocoa Partnership.

Condition 2: Business is more likely to act when poverty offers a favourable return on investment (ROI). This accounts for services to underserved markets, new market opportunities for the poor, and in some cases a reengineering of the benefits of trade in favour of the poor. Initiatives that seek to deliver social return on investment (SROI) in addition to ROI can position the poor as producer or consumer. Examples include fair-trade, microfinance, enterprises such as Freeplay, M-Pesa, or the Shakti Project, and Merrill Lynch's investment in Ulu Masen.

Condition 3: Business is more likely to act when poverty is associated with inefficiency. This accounts for initiatives to combat corruption, enhance the poor's productive capacity, increase health and safety standards, invest in education, and improve living environments. Examples include the Extraction Industry Transparency Initiative, investment in AIDS-prevention by firms such as SABMiller and L'Oreal, and the education programmes of companies such as Anglo American and Cisco Systems.

Any of the initiatives undertaken by business as a development agent mentioned in this chapter can be explained by appeal to one or other of the above three conditions. Likewise, dimensions to development that lie outside the scope of these conditions are

² For an overview of stakeholder theory and practice, see Blowfield & Murray 2008, chapters 6 and 10. Warner & Sullivan 2004, and Utting & Zammit 2006 provide frameworks for understanding partnerships, and examples.

unlikely to be addressed by business overtly. For example, redistributive elements such as corporate taxation, though part of debates about development economics, are not normally incorporated into normative debates about the responsibilities of business. Neither too is any thorough consideration of power and conflict, even though some of the areas where business affects development are historically the sites of dispute and tension (e.g. relations between buyers and small contract farmers or outgrowers). The gender dimensions to poverty are frequently ignored, and this is part of a general pattern of preferencing where the individual good is preferred to the communal, financial wealth is favoured over non-financial, and issues such as class, ethnicity, sexuality, and other determinants of privilege are discounted or isolated from their wider context. It is not that these dimensions are absent from debates about development: indeed, it is their importance to development theory that makes their absence from corporate responsibility in the development context so noticeable. These and other types of exclusion are made more apparent when we look at the impact of business initiatives.

4.2 Impact

For all the excitement surrounding the contributions business could make as a development agent, there is surprisingly little information about what has been achieved (Blowfield 2007; Hamann 2007). This is not to say that we know nothing about corporate responsibility's impact: on the contrary, we know a considerable amount about certain areas of impact, but the information we have is quite specific and tells us little about the real outcomes for the poor. There has been some interest from companies in showing the cash value added of operations, but this does not really tell much about the social or even economic return on investment, and how the data relate to the investment priorities of the poor (Ellis 2008).

There are three main sources of information commonly used in talking about impact – case studies, company corporate responsibility reports, and company ratings – as well as reports documenting the progress of companies within particular partnerships (e.g. the Ethical Trading Initiative's annual report). Often the growing number of case studies, reports and ratings is itself offered as proof that corporate responsibility is having an impact. However, the information on corporate responsibility's impact is for the most part slanted towards instrumental benefits, and impact assessment methodologies used in development agencies (that not least demonstrate the complex nature of social impact) have not been widely used by companies.³ While there is considerable information about how attention to corporate responsibility is changing business practice and stakeholder behaviour, and how attention to development issues relates to business performance, there have been few systematic attempts to learn how business' investment in corporate responsibility management is affecting poverty. A case study can relate how many people benefited from education programmes, or the distribution of malaria nets, but these are often snapshots that say more about inputs and outputs than outcomes and change. Multiple case studies using a myriad of methodologies also make it impossible to draw broader conclusions across industries, or countries. Even private enterprise approaches to poverty alleviation such as microfinance and fair-trade have found it difficult to detail their impact on poverty. For example, there is a lack of comprehensive data about fair-trade producers (Schmelzer 2007), and a recognition that the fair-trade movement does not have a clear methodology to quantify its impact (IFAT 2006). A 2006 overview of microfinance found that to the extent the impact was

³ This complexity is evident in impact work commissioned by Unilever (Section 2.1), but those studies focus on that company as a development tool rather than development agent.

known, the poor benefited, but to a limited extent (The Economist 2006), and awareness that social goals are not being managed has led to the creation of the Imp-Act Consortium to promote social performance measurement in the microfinance community.

Companies such as Anglo American have been complimented on their efforts to develop more sophisticated social assessment tools, and use these to report their performance. However, this is a relatively recent development, and does not yet explain much about impact, while experience suggests that efforts to measure impact to date have been flawed (Hamann 2007). It may be that more comprehensive information on impact is held inside companies and partnerships, although questions have been raised by NGOs and others about the long-term implications of this 'privatisation' of knowledge relevant to understanding business' relationship to poverty (Rodríguez-Garavito 2005).

4.2.1 Lessons on impact – the example of Ethical Trading Initiative

The Ethical Trading Initiative is one of the few examples in the public domain of a long-term commitment to assessing impact, in this case the outcomes of monitoring labour conditions in global supply chains. From its inception, ETI has published the extent of its member companies' monitoring activities, which rose from 1500 in 1999 to 35,000 in 2006. But the most interesting insights into the outcomes for workers, and the challenges of understanding those outcomes, comes from a multi-country study commissioned by ETI and published in 2007 (Barrientos & Smith 2007).

Examining eighteen worksites in three countries, the study identified demonstrable impacts relating to certain aspects of the ETI's labour code of conduct, notably under the provisions on health and safety, and on legal employment entitlements such as the minimum wage, working hours, and deductions for employment benefits such as health insurance and pensions. At most workplaces, workers' physical and social well-being was enhanced through health and safety improvements (e.g. information and training; fire safety; safety guards; protective equipment; improved toilets and drinking water), and reductions in working hours. Other improvements may have already occurred prior to the study: for instance, the assessment did not discover any child labour. Some improvements were limited to certain types of worker, so that for example there was evidence of improvement in the treatment of permanent and regular workers, but contract labour was still poorly treated in most countries.

The benefits were not limited to workers. For example, workers no longer took home their work clothes or touched their children after handling chemicals. Some permanent workers said their houses were cleaner because of seeing improved factory conditions. Reduced working hours meant that workers had more time for relaxation and interaction with their families, and (especially for women) for domestic responsibilities. In addition to enhancing workers' sense of well-being, these changes may reduce their vulnerability to long-term health and social problems, with links to future income prospects.

However, there were other areas where the impact was either mixed or unclear. This is especially true when considering process rights (i.e. intrinsic principles of social justice that under ILO Conventions are what enable workers to uphold their rights). For example, codes have not led to wage increases through Collective Bargaining Agreements, which along with Freedom of Association is considered a major process

right. Without process rights, advocates argue, other changes do not follow. Codes have not led to a substantial increase in income in terms of guaranteeing a living wage, for instance. Indeed, wages do not appear to have improved as a demonstrable result of the codes, and there are workplaces where codes have led to a reduction in working hours and resultant decrease in take home pay (although this is not necessarily considered a negative outcome if there are other benefits such as more leisure time).

In some areas where codes may have had a positive impact, the benefits are limited to certain types of worker. For example, if suppliers pay into state insurance and pension schemes, workers' vulnerability to poverty in the event of childbirth, illness, or old age is reduced, but these types of employment benefit are often limited to permanent workers who constitute only a part of the workforce. Although contract and other casual workers are a large part of the workforce, the ETI code's provision on security of employment has not had much impact, and the assessment found anecdotal evidence that shortening lead times by ETI member companies had increased usage of temporary and contract labour in order to fulfil orders.

4.2.2 The challenge of understanding impact

The ETI example is discussed in detail, not because the impacts are worse or better than others, but because it is one of the few instances where the impact of a corporate responsibility initiative has been assessed so systematically. It highlights not only the challenges for multi-stakeholder regulation in delivering benefits to poor people, but some of the difficulties any initiative faces in being an accountable development agent. New work on fair-trade also reveals problems to do with the distribution of benefits, and the alienation of the intended beneficiaries (i.e. small producers) from the very processes intended to raise their standards of living and to empower them (Catherine Dolan, discussions with author, July 2008). In part this is because of the capture of benefits by elite groups within local communities (a common phenomenon in conventional development), but it is also because of the very process of monitoring and auditing. The kind of social audits that are part of implementing codes of practice are intended to enhance transparency, trust, and accountability (Strathern 2000), but in reality they can create distrust and deception (Blowfield & Dolan 2008). Reflecting the situation observed in conventional supply chains, there is now evidence that auditing of fair-trade producers is prompting producers to conceal actual conditions, and act out an idealised tableau of workers and farming communities for fear that to do otherwise would put fair-trade contracts at risk (Catherine Dolan, discussions with author, July 2008). Although there are various initiatives such as the work of the International Finance Corporation and the World Business Council on Sustainable Development on measuring business' impact, and new Overseas Development Institute work on a 'Good for Development' label (WBCSD 2008; Ellis 2008) that may eventually provide more information on impact, these are also building on conventional management tools the suitability of which for the task at hand is unknown. Thus, it is not simply that we know little about the impact of corporate responsibility: the instruments used to implement certain corporate responsibility programmes – instruments adapted from conventional management's arsenal – may prevent us from knowing the actual impact, or at least limit our knowledge to a sanitised view that resonates with our own preconceptions about what development means.

'Entrepreneurship' is a good example of how the norms and language of business can affect our perception of development. As part of the increasing emphasis put on offensive corporate responsibility, particular attention is being paid to the significance

of small and medium sized enterprises, and the financial and developmental benefits of building the capacity of local entrepreneurs (Wilson 2006). For the most part, these are referred to as objects of corporate responsibility (something larger companies should invest in and create backward linkages with) (e.g. Wilson 2006, WBCSD 2007, Nelson 2007), rather than as adopters of corporate responsibility. They are considered essential elements of economic growth, and something that larger companies are uniquely placed to assist (Brainard 2006, Grayson & Todd 2007, Center for Global Development 2007).

The role of large companies in relation to entrepreneurs is instrumentally significant in relation to business and poverty, but also provides insight into how contemporary development is being constructed. As noted earlier, a criticism of the way business' role in relation to poverty has been conceived is that it overlooks process dimensions such as empowerment in favour of substantive ones such as the minimum wage and farm-gate prices. Yet, building entrepreneurial capacity is repeatedly described in terms of empowerment (WBCSD 2007, Wilson 2006, Rangan 2007), a term that is variously emphasised and deemphasised according to what aspect of the business-poverty agenda is being dealt with.

The importance attached to entrepreneurship (and its equating with empowerment) is evidence of the way corporate responsibility for the most part represents a managerial vision of the role of business in development. Once an aspect of poverty is framed in ways management understands, it is more likely to be accepted (and hence legitimised) into the business-poverty agenda. For example, Nelson (2007: 22) observes that “*a results-oriented emphasis on measurable indicators is one of the [Millennium Development Goals'] key advantages and innovations.*” Modern corporate responsibility management has replaced old-style philanthropy with the technocratic rationalism of responsible competitiveness (Rajak 2006), and considerable effort has gone into developing a managerial rationale for tackling poverty (SustainAbility et al 2002). Thus, if we are to better understand impact in the future, we will need to attend not only to the outcomes for the poor, but the influences exerted on ideas of development.

5. CONCLUSION

When we examine the role of business as a development agent today, what we are witnessing is part of a constantly shifting debate about business' contribution to society that plays out differently according to place, time, and culture, but is ultimately about how the norms and values of capitalism, as embodied in the modern enterprise, can be accommodated, harnessed, and utilised for societal good. Some would claim that companies fulfil their unique function by providing goods and services that people need at a profit to investors, and that to ascribe the role of development agent to firms is to distract managers from their primary duties. Conversely, there are others who feel business should not be a development agent because it will negatively affect development outcomes in some way.

In response to those who see a development agent role as harmful to business, the framework of business' interactions with poverty used in this chapter shows that, even if a company focuses on its financial mission, there can be good reasons to consciously manage the relationship with society. However, companies are under no formal compulsion to do this, and although there are informal pressures, there is a case to be made that companies are renegotiating their social and environmental responsibilities in ways that meet the requirements of commercial competitiveness rather than societal

good. It is evidence of this kind of shift (e.g. in relation to pensions, labour relations, and taxation) that make some people fearful of companies acting as development agents because ultimately they might pick and choose what constitutes societal good. For example, private sector involvement can be seen as part of a process of neo-constitutionalism whereby those responsible for managing the global economy are increasingly isolated from popular scrutiny (Farnsworth 2007, Sum 2007), and companies are able to co-opt the development process for their own narrow self-interest. There is certainly evidence that business interacts with development in particular ways (see below), and perhaps reason to be concerned that it constricts the meaning of development itself (Blowfield 2005). Yet this kind of insight is most relevant if a) one ever held the assumption that business could somehow be radically transformed by its role as development agent, or b) development itself is a radical process, rather than one that seeks to universalise particular economic, political, and other norms. The reality, however, is that business' engagement in development is not a radical shift, and as the business-poverty framework shows it is something that can lead companies to rethink their relationships, but does not undermine them. Moreover, elements of the business response (e.g. the adaptation of conventional management tools and concepts for development purposes; the depoliticisation of economic opportunity; the reduction of complex social, cultural, and economic factors to technical problems) are ones that are characteristic of contemporary development itself (Ferguson 1990). Therefore, it may be harder to argue that business might co-opt development than to make the case that business as a development agent mirrors the established norms of the predominant development discourse.

Rather than examining business' role as development agent as subversive either to business or development, the main focus of this chapter has been on the possibilities and limitations of business' current and likely contribution. Increasingly, this role has been discussed in terms of corporate responsibility: a term with two meanings, referring to the responsibilities of business to society, and the way companies manage those responsibilities. Corporate responsibility is not an approach to development, and it is unsurprising if it has shortcomings in this regard. However, by understanding any shortcomings, we can ask if and how they can be overcome (Frynas & Newell 2007), and in turn begin to answer questions about what kind of development agent business could be.

There is a tendency to stress the generic strengths of private enterprise to explain the significance of business' role in development (e.g. client-focus; ability to raise capital; specific skills, tools and competencies). However, the role any single company or industry can play is greatly affected by the type of relationship it has with poverty (e.g. victim or cause), whether offensive or defensive strategies are pursued, and the location and context (e.g. whether or not there is a functioning civil society). Too often, in making the case for business to act as a development agent, advocates overlook the context-specific variables and complexities that can ultimately influence outcomes in a given situation as much as flaws in execution can.

Yet such contextual variables are of secondary importance to the three conditions that predicate any corporate engagement in development, i.e. the association of poverty with risk, opportunity, and inefficiency (Section 4.1). The examples of business responses in this chapter demonstrate that at least one of these conditions needs to be met for companies to act as development agents. However, our knowledge of how the conditions influence development is far from complete. For example, when poverty is associated with risk it has led to genuine innovations (e.g. in supply chain governance;

responsibility towards producing communities; linkages between business and development organisations). However, to date success has been measured in terms of the instrumental benefit for companies, not the developmental benefit for communities, and while the poor may participate, they do not have the means to hold others to account for the outcomes. Similarly, while a positive association between poverty and return on investment (ROI) can stimulate companies to deliver a social return on investment (SROI), there can be a tension between developmental outcomes and commercial imperatives, evident, for example, in how the demand for certified timber has been met largely by sourcing from developed nations rather than developing ones, and concerns that the expansion of fair-trade is weakening the relationships between producers, buyers, and consumers. The emphasis on the financial success, and the limited information on the social impacts, of initiatives of this kind suggest that developmental consequences can be lost or overlooked once ROI attracts more attention than SROI.

The least understood of these conditions is the association between poverty and inefficiency that may account for initiatives to combat corruption, and enhance the poor's productive capacity. Some of the optimism surrounding corporate responsibility stems from surprise about what can be shown to be an inefficiency. For example, it is possible that if as part of lean manufacturing, workers come to be treated more as assets than commodities, dislike of inefficiency will prompt more investment in the workforce. Equally, some of the pessimism about corporate responsibility relates to the lack of action around aspects of poverty that constitute an efficiency such as casualisation of the workforce, and the role of women in production.

Recognising these conditions is an important step in understanding the parameters of possibility for business as a development agent, and in particular what dimensions of poverty are likely to be included or excluded. However, we should not treat these parameters as static. It is tempting to say that certain kinds of dimension to poverty are excluded for structural reasons because their inclusion cannot be justified under the three conditions. Kilgour (2007) argues that some issues represent differences of interest that are inherently political and conflictual, whereas formalised corporate responsibility management assumes a degree of equality amongst stakeholders, and equates conflict with differences of opinion that can be resolved through dialogue. The fact that more progress has been made with the substantive dimensions to development than the process ones such as empowerment suggests that such a conclusion could be true. However, it might be too early to pass judgment given instances such as the recent change in emphasis from simply expecting suppliers to comply with standards, to major brands working with supplier management and workers to increase local capacity, including creating spaces in oppressive regimes where workers can organise and collaborate. This offers the promise of a more effective way of dealing with reputational issues arising from allegations of exploitation. As the possibilities of this kind of intervention are explored, and companies become more innovative in how they address the three conditions for their being a development agent, it might be worth keeping a somewhat open mind about the extent to which business is able to develop and accommodate a more nuanced view of the poor and poverty than it has shown until now.

At the same time, certain aspects of social development that complement the interests of business are being normalised, and this could explain why they appear less likely to be critiqued. These include, for instance, flexible labour markets in contrast to the emphasis on secure employment in previous eras, private ownership of natural

resources, and the free flow of capital. However, these are ongoing trends that predate efforts to engage business in development, and are better described as part of the process of modernity and the inherent dimension of universalisation in globalisation. This process favours business as a whole (although there are winners and losers amongst companies), and there are instances of companies and industries actively fostering this normalisation. These trends will not be opposed within the business-as-development-agent arena because they do not represent a risk, opportunity, or inefficiency, but equally it is hard to claim that business' role in development exacerbates such trends in a significant way. Nonetheless, there are issues of legitimisation and delegitimisation more directly related to business as a development agent. We have seen, for example, how modern management rationalism has been incorporated into the way poverty is understood and approached. Similarly, we have seen examples where a term such as empowerment has come to be associated with a business quality such as entrepreneurship, thereby imbuing business behaviour with a new moral creditworthiness. This is problematic morally if notions of good come to be reassessed using commercial criteria (Blowfield & Dolan 2008), but also from a technical developmental perspective where a distinction has to be drawn between 'opportunity entrepreneurs' committed to innovation, scaling up, and reinvestment, and 'necessity entrepreneurs' who lack economic alternatives, and are less likely to reinvest or take risks (Patricof & Sunderland 2006). The former are essential to the kind of creative destruction described by Schumpeter, and which in addition to economic growth could lead to the kind of social innovations needed to reduce poverty (Christensen et al 2006). The latter are probably more accurately called 'own account workers', and create few jobs, have little security, and would typically prefer stable employment than the chance to be an entrepreneur (Karnani 2007).

However, there are examples of issues that are developmentally important being accommodated even though this means challenging conventional business wisdom. For example, features of fair-trade such as supply chain trust and equity, long-term contracts, and investment in producers have found their way into the language and programmes of companies such as Starbucks (MacDonald 2007). As Kolk & Tulder (2006) show in the context of voluntary standards, a variety of pressures contribute to what is ultimately legitimised or ignored, and often what emerges is a 'sector conditioned morality' that reflects a minimum level of expectation from civil society on the one hand, and a ceiling level acceptable to an industry on the other.

Thanks to the pervasiveness of business modalities, those who warn of the risk of cooption of the development agenda are expressing legitimate concerns: ones that echo those about the liberal moral agenda prevalent in the nineteenth century colonial state (Dolan 2005). However, to critique business' contribution for being part of a neo-liberal agenda is unsightful, and verges on tautology. While the relationship between business and neo-liberal policy is dialectical, and companies or industries are both constitutive of and shaped by the wider agenda, the need to understand the role of business as development agent stems not from the possibility of upsetting this agenda, but from an interest in testing its boundaries by discovering what private enterprise is able or unable to do. If poverty alleviation depended solely on the private sector, it would take radically different forms than it does today. However, for the foreseeable future it may be a greater challenge to get the majority of business to recognise any role as development agent than to rein in its engagement. This may change as, for example, companies come to identify new opportunities in poor regions as is starting to happen with forest carbon credits. But a feature of such initiatives, and business' developmental role more widely, is the reliance on collaboration with non-business

actors. Indeed, given the relatively few examples of companies acting unilaterally, there might be fears that business itself is being coopted. However, given the many instances of partnership in current business responses, it is probably more accurate to say that the role of business is to be a collaborator in development, and that development ends can best be served when there is genuine collaboration whereby different sectors pursue shared or complementary poverty objectives.

This conclusion can be challenged on the grounds that it relies on evidence about large companies, and says nothing about the smaller firms and informal sector that are such an important feature of developing economies. It also disregards changes associated with the new influx of foreign direct investment from countries such as China and India, and the different types of relationship that may emerge as a result, just as it ignores the role large domestic companies played in the development of countries such as Singapore, Taiwan, and South Korea. However, even if consideration of these dimensions to business in developing economies revealed very different features of managing the relationship with society, a significant part of the business community would still be looking to employ collaborative models. Until now, collaboration has often been seen as synonymous with partnership, but although the contribution of partnerships can be important, collaboration can take a range of forms. For example, it could be as simple as making community development expertise available to a bank investing in forest conservation. But it could involve inter-sectoral collaboration to achieve the appropriate balance between voluntary regulation of supply chains, and statutory regulation of factories. It could mean finding the right mix of international engagement and local activity to sustain the kind of producer-to-consumer bond envisaged by some proponents of fair-trade. There are enormous challenges about how to realise these collaborations so that, for example, they are not fatally distorted by power asymmetries, or they succeed in valuing non-financial returns. They raise important questions about the future of development planning, and prevalent command and control, input-output models. There are implications for the role of business, but also for conventional development agents. (For example, to what extent are NGOs prepared to allocate resources to sustain the model of social accountability they have helped advocate for? Will government build civil regulation into its enforcement models?)

Nonetheless, based on the current pattern of corporate engagement in development, there are good reasons to think a more sophisticated collaborative inter-sector model than exists at present would be appealing. However, a stumbling block could be companies' unwillingness to be accountable for development objectives in any rigorous way. A test of how far this can be overcome may be the recent wave of socially oriented entrepreneurs claiming a blend of social and commercial vision. If these find viable ways to demonstrate social returns, they may influence other companies that recognise a role as development agent, but limit their accountability to internal rationalisation. But it may be that business remains a development agent only in a limited sense. Early on I said that when considering business in a development context, the question is not whether business has an impact on poverty, but whether or not it can and should be accountable for causing, preventing, and alleviating poverty. To date, there is evidence that some companies are mindful of poverty, and showing a degree of innovation in how they respond. But they have a narrow perspective on what to be accountable for and to whom, and the incentives to be more rigorous about this are lacking. At present, the conditions under which business engages in poverty alleviation are all ones rooted in self-interest. What are presented as countervailing agents have made some progress in expanding this definition of self-interest, but government and

non-government agents have had more success in getting companies to commit to development objectives than they have in holding them to account for delivering on them. By clarifying how business relates to poverty, and under what conditions it chooses to act as a development agent, we may establish a more solid base for holding companies to account, and making it in their interests to be more accountable. Without this accountability there will always be a randomness and unpredictability to business' interpretation of its responsibilities, leaving open the possibility that for all of the justification for business to be a development agent, it will remain a development maverick.

Abbreviations

AIDS - acquired immunodeficiency syndrome
CEO – chief executive officer
DFID – Department for International Development (UK)
ETI – Ethical Trading Initiative
FSC – Forest Stewardship Council
GDP – gross domestic product
HIV - human immunodeficiency virus
HLL – Hindustan Lever Ltd
ILO – International Labour Organisation
MDG – Millennium Development Goals
MFA – Multi-fibre Agreement
NGO – non-government organisation
OECD - Organisation for Economic Co-operation and Development
ROI – return on investment
SME –small and medium-sized enterprise
SROI –social return on investment
UNCTAD - UN Conference on Trade and Development
UNDP – UN Development Programme
UNICEF – UN Children’s Fund
UNIDO - United Nations Industrial Development Organization
WBCSD – World Business Council for Sustainable Development
WTO – World Trade Organisation

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