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Corporate Social Responsibility as a tool for sustainable development

The public sector endorsement of CSR in the development of the world's periphery

Table of contents

ACRONYMS 3

INTRODUCTION 4

PROBLEM FIELD 5
RESEARCH QUESTION AND SUB-QUESTIONS 6
METHODOLOGY 7
CHAPTER PRESENTATION 8
DELIMITATIONS AND FOCUS 9

1. CORPORATE SOCIAL RESPONSIBILITY IN QUESTION 12

CRITIQUE OF CSR 12
WHY CSR? 15
THE GOOD CORPORATE CITIZEN 16
THE BUSINESS CASE 19
CORPORATE GOVERNANCE 20
STAKEHOLDERS 21
CSR AND DEVELOPING COUNTRIES 23

2. CAN THE PUBLIC SECTOR PROMOTE PRIVATE ENGAGEMENT IN SUSTAINABLE DEVELOPMENT? 27

GOOD GOVERNANCE 29
CREATING AN ENABLING ENVIRONMENT 32
THE PUBLIC SECTOR ROLES 33
CSR AS A TOOL FOR DEVELOPMENT 34
STATE-SUBSIDIZED CSR 37

3. PUBLIC-PRIVATE PARTNERSHIPS IN DEVELOPMENT 40

PUBLIC-PRIVATE PARTNERSHIPS 40
THE PUBLIC SECTOR 43
CORE COMPETENCIES 44
MULTI-STAKEHOLDER PARTNERSHIPS 45

4. CONCLUSION 47

5. BIBLIOGRAPHY 49

Acronyms

BLE	Big Local Enterprise
BOP	Bottom of the Pyramid
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
LMIC	Low- and middle-income countries
MNC	Multinational Corporation
NIE	Newly Industrialized Economy
ODA	Official Development Assistance
PPP	Public-Private Partnership
SME	Small and Medium-sized Enterprise
TBL	Triple Bottom Line
UNIDO	United Nations Industrial Development Organisation

Introduction

The forces of globalisation have been increasing in strength since the mid-1980s and have to a growing extent influenced economies all over the world. This influence varies from country to country and between stages of development. The economic aspects of globalisation with roots in the Western world are central aspects of the reality in which all the world's leaders have to make their decisions in politics, government and business.

A clear example of the different paths of globalisation can be seen in Asia. In more than half a century the countries of East and Southeast Asia have dealt with the concept of increasing globalisation in different ways in order to guide towards economic growth and poverty reduction. In the development of the first Newly Industrialized Economies (NIEs), such as Taiwan and South Korea, a great deal of state-guidance was important for their impressive economic growth in the less globalised economy of the 1960s. From the mid-1980 a paradigmatic shift towards more neoliberal economics and a belief in the advantages of a free market influenced the policies in both the second-tier NIEs, such as Thailand and Malaysia, as well as the first-tier NIEs.[1] This change caused a further opening of the domestic markets reducing much of the ability to intervene in the economy in favour of international rules. Even the transition economies of China and Vietnam have to some degree continuously opened up to both the economic aspects as well as the political and social aspects of globalisation.

In the condition of increasing globalisation, capital constraints have been widely eliminated in many areas, and thus enabling enterprises to import the needed know-how and components to be competitive on the international, regional and domestic markets. This has positively affected the productivity and growth of industry and has made impressive contributions to the growth of GDP. In the Southeast Asian countries, especially the second-tier NIEs, this has made the capital requirements for industrialization available at a much earlier phase of development than was the situation for Japan and the first NIEs. This

[1] Chang, H. 1998: 1558

can foster great inequalities between industry and agriculture and between urban and rural areas, and can consequently reduce the likelihood of 'growth with equity' a characteristic more common among the first-tier NIEs.

By and large increasing globalisation provides countries with an opportunity, depending on their administrative, political, economic and social characteristics, to grow at a faster pace and increase GDP, but in contrast the income distribution may in many aspects become more unequal. The disparities between urban and rural might grow, if not as quickly as the GDP growth, then at least to such an extent that it can leave countries divided into 'the modern' and 'the traditional', further reflected in the dissimilar opportunities to enjoy the benefits of growth, and the continuant presence of large amounts of people living just above the poverty line. Furthermore with economic growth and industrialisation follows the likelihood of problematic environmental and social externalities that in many cases are not internalized into to the enterprises. Hence the quality and sustainability of the growth need to be addressed.

Problem field

In many respects the above implies that the capital constraints might only have vanished for direct profitable investments[2], and that globalisation therefore does not automatically secure the quality of growth based on reflexive decisions. For example the provision of education and research, health, infrastructure, and pro-poor economic development etc.[3] that might not be tradable on markets because of non-excludability, might therefore not be provided at sufficient levels, which leaves an important task for government intervention.[4] Furthermore the path of industrialisation might not be sustainable due to for example environmentally unsound production methods and the limited role that the host (developing) county has in the value chain where know-how, design, raw materials, etc. often come from other countries along the supply chain. In order to address the problems of quality and sustainability, clear development plans guiding private investments, donor funding and continuous efforts in developing and sustaining good public governance can be

[2] Andersson, M & C. Gunnarsson 2003: 200
[3] Public goods, partly public goods and the like.
[4] Stiglitz, J. & S. Yusuf 2001: 518

helpful to form the frame that the private sector has to act within and enhance the private sector's role in the development. Furthermore the private sector's engagement in the developing world can within this frame, and by their ethical concerns of corporate social responsibility (CSR), be a combination between reflexive sustainability concerns and business survival (e.g. profits). This project addresses whether the public sector can enable that CSR can be used to internalize externalities into enterprises and at the same time include the corporations into a broader societal quest for national, and perhaps internationally defined, sustainable development goals.

In order to make CSR a tool for development the public sector will have to consider their promotion of and enabling role for CSR among the market agents; be it multinational corporations (MNCs), big local enterprises (BLEs) or small and medium enterprises (SMEs). Along this line establishing a framework for a nationally decided definition of CSR might be crucial in order to pursue an increased role in the value-chains, increased productivity, knowledge spill-over, increased worker safety, transparency, economic integration, and therefore also to attract more investments. Creating more incentives to invest in rural areas, in renewable energy, water and sanitation, training and public goods among others, can help compensate for the areas left out by globalisation and reduce possible market failures.

In this project the question of CSR as a tool for development will be discussed in relation to the discussion behind the concept of CSR and the public sector's role in encouraging business behaviour that is in line with national development goals.

Research question and sub-questions

The problem field leads to the following research question:

"Can CSR be used as a tool for sustainable development in the developing world?"

The research question is aimed at the case for developing countries, with a certain focus on the role of the public sector.

In order to operationalise the research question four sub-questions are used to guide the report:

1. *What are the specific positive aspects and potential threats of CSR in development?*
2. *Can the public sector enhance CSR as a tool for achieving sustainable development?*
3. *How can CSR be used to guide business in the direction of development goals?*
4. *Can public private partnerships (PPPs) be specific tools for sustainable private sector engagement in development?*

The use of the sub-questions is explained in the chapter presentation below.

Methodology

This section gives a description of the methodology used in the report containing a presentation of the analysis-strategy, the chapters, and the delimitations.

In order to investigate into the research question an abductive method is used. It is not only emphasized to discuss whether CSR in it self is a means for sustainable development, but rather to introduce another aspect to the analysis, that is whether public policies can have a positive correlation to creating sustainable development by using CSR as a tool. Thus the analysis is searching behind the rather unspecific term CSR in order to see if there are certain triggers that can make it a useful tool in a broader context than just individual business concerns. This method is based on a critical realist theoretical framework within which, one, in order to understand social phenomena and the structures underlying it, must collect relevant empirical data and derive or define a theory from the analysis and interpretation of that using an abductive method.[5] Thus rather than simply focusing on the cause and effect this analysis is taking its outset in the correlation between the policy level and the effect on development, what is required for the two links to correlate positively. The methodology used is eclectic since the analysis draws on both quantitative and qualitative second-hand empirical data as well as project documents and evaluations.

[5] Alvesson, M. and K. Sköldberg 2000.

Chapter presentation

After introducing the theme and its immanent problems, the methodology and the limits of the scope of the project report in the Introduction, the first chapter will address the concept of Corporate Social Responsibility. First some of the main criticisms of CSR are presented in order to see this in contrast to the main arguments for CSR that are discussed subsequently. Lastly the above will lead to a discussion of the concept of CSR in the context of developing countries in order to put a light on the specific concerns related to non-Western implementation of CSR. Sub-question one *"What are the specific positive aspects and potential threats of CSR in development?"* will be addressed in the first chapter.

In the second chapter the question concerning the public sector and the enhancement of the private sector's engagement in sustainable development is addressed. After discussing the roles of public sector agents in ensuring positive private sector contribution to development, it will be examined how to create an enabling environment for CSR, and determine what approach and what concrete initiatives and measures that can be used. This chapter will discuss the second sub-question *"Can the public sector promote CSR as a tool for achieving sustainable development?"*.
In continuation of that chapter two will look at CSR as a tool. The concept of CSR will be operationalised by looking at some of the concrete tools that can be used in state-led CSR. Hence the third sub-question *"How can CSR be used to guide business in the direction of development goals?"* is discussed in this chapter.

The third chapter addresses the fourth sub-question: "*Can public private partnerships (PPPs) be specific tools for sustainable private sector engagement in development?"* and is a short discussion of one of the potential measures of enhancing CSR presented in chapter two.

Finally in the concluding chapter the research question "*Can CSR be used as a tool for sustainable development in the developing world?*" and the sub-questions will be addressed drawing on the findings presented in the various chapters in the report.

Delimitations and focus

The term CSR is used broadly within different segments of government, business and academics, the concept therefore encompasses different theories and practices; however it can be used as an umbrella concept since all the approaches recognize the following:

"[…] *(a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); and (c) that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society*." (Blowfield, M. and J. G. Frynas 2005: 5).

Within the above umbrella concept definition this report is based on a broad understanding of CSR as being the general positive and negative contribution to sustainable development by enterprises. That understanding of CSR can be defined as follows:[6]

"*Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development - working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development.*" (Ward, H. 2004:3).

This concept does not define whether the contribution to sustainable development has to be voluntary or not and therefore it can include both enforced and encouraged initiatives, which is a conceptual strength that enables a discussion of the role of the public sector in promoting CSR. Furthermore it encompasses both the micro-level economic sustainability of the corporation, the fact that a company has to follow certain rules when it participates on capitalistic terms in the market. The other aspect is the more meso- or macro-level sustainability, where corporations have a responsibility to the society of which they are a part.

Sustainable development can be defined in different ways reflecting the economic, environmental or social sustainability; however in this report sustainable development is

[6] Fox, T. 2004.

understood as reflecting all three aspects. Because the economy is a closed system with limited resources, sustainable development has to be taken into account in order for securing equity within and between current and future generations and to meet their needs. Used broadly sustainable development in the three dimensional focus can thus be defined as:

"*Economic – An economically sustainable system must be able to produce goods and services on a continuing basis, to maintain manageable levels of government and external debt, and to avoid extreme sectoral imbalances that damage agricultural or industrial production.*

Environmental – An environmentally sustainable system must maintain a stable resource base, avoiding overexploitation of renewable resource systems or environmental sink functions and depleting non-renewable resources only to the extent that investment is made in adequate substitutes. This includes maintenance of biodiversity, atmospheric stability, and other ecosystem functions not ordinarily classed as economic resources.

Social – a socially sustainable system must achieve fairness in distribution and opportunity, adequate provision of social services, including health and education, gender equity, and political accountability and participation." (Harris, J. M. et al 2001: xxix)

This definition is multifaceted and has implicit dilemmas, and therefore it has not in a normative way one ideal solution or path. Instead the concept should be used as a guideline, against which developmental issues, public policy, corporate action and civil society action have to be evaluated, and the pros and cons examined. And finally the evaluation will vary in different cultural settings due to variations in norms and values.

This analysis focuses on developing countries; therefore the discussion addresses aspects that are related to that area. This means that concerns of CSR and the public sector's role in the West will not be addressed separately, but thereby not said that some of the issues discussed cannot be relevant for concerns in other parts of the world.

The main focus of CSR is seen in relation to the public sector and sustainable development, which means that the business and civil society aspects are not primary foci in the discussion.

Within the frame of public roles in bringing about CSR the concept of PPP will be discussed in a theoretical way, addressing the issues of how partnering with the private sector and civil society can lead to a more sustainable development path. Practical concerns of how to establish and manage the partnerships will not be discussed since the concern is the CSR issue and because the management has to be country-enterprise-contract specific and will require extensive field research.[7]

With these delimitations in mind the analysis of CSR as a part of the new development agenda will take its outset in materials written by academics, business leaders, donor agencies and NGOs.

[7] However if you want more information some of the donor agencies working with PPPs have developed tool kits for PPPs with some overall guidelines that can be common to many PPPs in a developing context.

1. Corporate Social Responsibility in question

Whether enterprises should operate in a socially responsible manner, and if that is the case then how such a responsibility should be defined, are questions that have been extensively discussed during the last decade. Should the enterprises or the state deal with the possible externalities linked with the enterprises' operations when it affects its employees, the (local) society, and the environment? This chapter takes this debate as its point of departure in order to throw light on some of the main arguments. Further this chapter addresses the theoretical approaches behind the arguments that are often not explicitly addressed in the mainstream debate.

Critique of CSR

The most common critique of CSR is provided by the shareholder approach[8] and using Milton Friedman's words from 1970 the critique can be summarized to:

"The social responsibility of business is to increase its profits" (Friedman, M. 1970)

This description of the generating of profits as enterprises only responsibility is based on the assumption that enterprises only are legal constructs, and therefore only the individual executives and employees can have a responsibility. There has to be a clear division between the state that defines the legal framework, and the enterprises that within this framework has to generate profit for its shareholders. The enterprises' executives have to comply with the rules and regulations set by the states and besides that, the enterprises will further only have to respect essential ethical norms of a society.[9] If the management decides to invest in CSR they are acting against their main responsibility to generate profit:

"*When a company gives some of its profits away in a good cause, its managers are indulging their charitable instincts not at their own expense but at the expense of the firm's owners.*" (Crook, C. 2005: 7).

[8] Derived from the neo-classical approach that is based on utility maximization, that human action in based on an assessment of costs and benefits.
[9] Koch, C. 2005 and Friedman, M. 1970.

Furthermore the shareholder approach together with other critics questions CSR and the immanent politicisation of the enterprises. It can be argued that CSR is undemocratic because CSR turns enterprises into political actors that get to make decisions concerning various stakeholders that are not represented at the company board. Thus CSR in contrast to governments, that are accountable to the citizens, can be criticised for representing undemocratic administration of the means and therefore a clear division of the responsibilities of the state and enterprises is important according to the shareholder approach.

The above-mentioned problem is also discussed within the welfare-economics approach, where CSR is questioned based on the assumption that states are better at dealing with societal problems, and thus taxes and subsidies are better tools than CSR. CSR might be based on strategic considerations and therefore strong stakeholders might be favoured even though they not necessarily are the worst affected group of stakeholders. This can also mean that the aspects of CSR that might generate the best returns, but not necessarily deal with the worst problems, would be favoured. Instead the state should deal with the non-financial aspects of the enterprises presence. However this approach does not automatically mean that there has to be a clear distinction between the state and the enterprises. A clear division of labour between the public and private sectors is not always possible neither always most efficient, often, it is argued, it is expedient to enable a closer cooperation between public and private agents.[10]

However ideal it is to have a clear distinction between enterprises and the state, the basis for this division of labour is that the enterprises comply with regulation and therefore the payment of the required tax. In order for the state to maintain a sufficient level of infrastructure, education, healthcare, market regulation[11] etc., all of which are assets appreciated by enterprises, a certain level of tax revenue is needed depending on the specific conditions and policies in the individual countries. The regulations are set in order to achieve the tax revenue and are divided between enterprises, consumers and individuals.

[10] O. Kierkelund 2005
[11] Dispute resolution, market rules for securing fair competition etc.

Therefore if less revenue is gained from the enterprises, due to tax-avoidance or lobbyism, it most likely will have to be derived from the individual tax-payers and consumers:
"*Tax avoidance on this scale enables companies to become economic free-riders, enjoying the benefits of corporate citizenship without accepting the costs, while also causing harmful market distortions and transferring a larger share of the tax burden onto individual tax payers and consumers.*" (J. Christensen & R. Murphy 2004: 39)

A growth of tax-avoidance however indicates that the utilitarian approach can be questioned; the tendency is that large-scale spending on locating tax havens and regulatory loop-holes is common among MNCs in particular. This is contrary to the assumption that companies should respect the states' regulations in order to enjoy the benefits. The CSR-debate often tends to avoid discussing the affects of tax-avoidance, which can make CSR seem trivial and a meagre compensation for the limited tax revenue. Tax-avoidance is particularly troublesome for the developing countries that are more receptive to corporate pressure due to the strong reliance on investments, and they can be compelled to borrow money on the financial markets.[12]

Tax-avoidance could be dealt with in an international framework to avoid countries competing against each other to attract investments. But to bring the CSR debate in focus one can argue that in order for CSR to be trustworthy, transparency and the honouring of tax regulation and thus the contribution to society should be a permanent aspect of CSR and CSR-certification. In general the traditional responsibilities of firms such as to pay taxes and create jobs, should not be neglected in times when CSR dominates the agenda.

Another concern about CSR comes from an Austrian-economics inspired approach that focuses on costs. According to this view profit maximisation is the driver for optimal behaviour in the market, therefore the share of the profit that is used for (non-profitable) CSR purposes will limit the incentives to act optimally in the market economic system. Further the maximisation of profit is the driver that makes the price adjustment and

[12] Christensen, J. & R. Murphy 2004.

progress in the form of entrepreneurial activity functioning. Thus the social and environmental concerns can limit the companies' freedom of action.
However some CSR actions can represent an attempt to mend market imperfections and thus contribute to a more efficient allocation of resources.[13]

As the above discussion reflects, most CSR critiques can roughly be placed into two categories, i.e. 'CSR is bad capitalism' and 'weak CSR is bad development'. The first category defines CSR as misuse of the shareholders money since social and environmental decisions are outside corporations' expertise. The second category includes criticism of current CSR practices and the inadequate public sector frameworks to support it. However within this approach reformed CSR used, directed and governed correctly can be positive.[14]
What most critiques have in common is that they originate in economic approaches that are all derived from the utilitarian principles of individuals as acting on the sole basis of self-interest. These approaches assume rationality or limited rationality as the basis for human and therefore business behaviour, with a main outset in either individuals or institutions. Welfare economics additionally takes the idea of utility to a macro-level where the desirability of alternative arrangements of economic activities and allocations are evaluated with a focus on economic efficiency through an analysis of which arrangements and initiatives make no one better off without making others worse off.

Why CSR?

Many advocates of CSR argue against Friedman's narrow definition of CSR and since it is difficult to separate the enterprises from their wider context it is impossible solely to assess them on the basis of their profit generation.[15] Further with the increasing globalisation, regionalisation and decentralisation the traditional frame of reference of "the territorial state" is to a growing extent being replaced. In addition more and more MNCs are operating across borders and with an increasing economic capacity. These trends are contributing to an increased politicisation of the enterprises. This politicisation is according

[13] Thomsen, S. 2005 and Koch, C 2005.
[14] Blowfield, M. and J. G. Frynas 2005.
[15] Certain CSR-initiatives are not linked with net costs for the enterprises and can be profitable, but since even such initiatives are far from implemented in the majority of enterprises, it is relevant to focus on CSR in a broad sense, be it profitable, neutral or with costs.

to C. Frankel (2004) primarily taking place within three areas, i.e. within the institutional level,[16] the question of responsibility, and the battle of opinions,[17] which raise many challenges for enterprises since they might be getting able to participate in the regulation of the society and thus they are additionally becoming more responsible for the problems in society (not only profit-generation).[18] Thus CSR can be a reaction to this development and can further be a means to tackle the limitations of the scope and reach of nationally imposed judicial and welfare regulation in a global economy, or act as a catalyst for improved national regulation in developing countries:
"*CSR is frequently advocated as a means of filling gaps in governance that have arisen with the acceleration of liberal economic globalization.*" (Blowfield, M. and J. G. Frynas 2005: 10)

As the discussion above indicates the international CSR debate has a prime focus on MNCs and large enterprises, however in developing countries SMEs are making up a large and growing share of the business landscape and is a considerable employer due to the often labour intensive production. The SMEs are closer related to the employees and the local community.[19] Therefore it is equally important, however perhaps more problematic, to address CSR issues at the SME level.[20]

Below some of the main areas of the CSR debate will be addressed, that is the discussions about corporate citizenship, corporate governance and the stakeholders.

The good corporate citizen

Advocates for good corporate citizenship argue that in a societal perspective there is a need for enterprises to be socially responsible. Besides the above-mentioned politicisation it is

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[16] Legal documents are increasingly being supplemented with technical standards; voluntary agreements; framework agreements etc. and the enterprises are not only competing within determined political conditions but also about setting the terms of competition on the markets. (Frankel, C. 2004)
[17] New forms of uncertainty for enterprises, but on the other hand they are able to participate in the battle of opinion generation (setting the norms for what are the criteria for rationality, legitimacy and responsibility). (Frankel, C. 2004)
[18] Frankel, C. 2004.
[19] Muro, A. 2005.
[20] CSR in SMEs should not only be addressed as a part of MNCs supply chain management.

argued that enterprises as good corporate citizens ought to take responsibility for the externalities they are creating. Additionally there are a number of circumstances that are present, that is lacking or inadequate bureaucratic regulation, the polarisation of the global community, transparent corporate policies, new forms of managerial styles etc., and therefore it is essential to extend the concept of CSR from Friedman's focus on profit and compliance.

To bring in a moral dimension, where the market system is a subsystem to the social system, and where the idea of "the good life"[21] is the basis of economic growth, the enterprises also have, besides the legal and economic responsibility, a social responsibility to be at level with the state of development of a society at any given point.[22] The approach opposes the above-mentioned argument that CSR is a limit to enterprises freedom of action, instead it is argued that that enterprises engagement in improving the societal conditions are creating better conditions for their transactions.[23]

In this approach being a part of a community is a precondition not a limitation for "the good life", however this is based on the assumption that the common good not in a decisive way can influence the autonomy, integrity and vulnerability of individuals. The common good is thus not an abolition of the individual into the collective, nor is it a reduction of "the good" to individual preferences and joy. Responsibility should be seen as a value; hence it is going beyond individual considerations and is oriented towards the common good.[24]

S. Thomsen (2005) is arguing that different mechanisms are contributing to an internalisation of societal concerns into the enterprises decisions and activities, and are thereby contributing to make enterprises good corporate citizens. Primarily the following mechanisms can be mentioned: 1. Legislation, regulation and formal institutions; 2. Culture, conventions and informal institutions; 3. The market mechanisms; 4. Stakeholder

[21] See below
[22] Dahl Rendtorff, J. 2004
[23] Dahl Rendtorff, J. 2005
[24] Dahl Rendtorff, J. 2004

influence; and 5. Reputation and public relations. However these mechanisms can have immanent implications that can influence the enterprises' ability to be responsible, e.g. due to problems of noise, limited information and bureaucracy problems it is not always the most appropriate laws that are passed; Social norms can promote inertia, for example discrimination; Market failure can create externalities and inadequate information; Direct stakeholder influence can lead to that well-organised interest groups can be favoured at the expense of other stakeholder; Enterprises' reputation can be preposterously good or bad due to adventitious circumstances that are external to the enterprises.[25] Furthermore these mechanisms are not necessarily adequate for advancing actual CSR among enterprises.

This leads to another approach to corporate citizenship based on a more strategic or new-institutional economic approach represented by M. Porter (2002) among others. It is argued that enterprises can achieve a competitive advantage by integrating their economic strategies with their CSR strategies. Enterprises' societal responsibility should be reflected in their products and actions by integrating their core competencies with CSR. CSR should not just be PR but should be seen as a part of the long-term investment and the effort to secure the enterprises' own sustainability.[26] In this way enterprises can be good corporate citizens and still focus on profits. In general CSR can within new-institutional economics be seen as an instrument whose use is rooted in attempts to improve enterprises efficiency and reduce the transaction costs.

Another prominent approach that advocates for CSR with origin in the new institutional economics is the so-called Bottom of the Pyramid (BOP) approach that focuses on what they define as inclusive capitalism. The BOP approach is specifically represented by C. K. Prahalad and S. L. Hart (2002) and is recently used in a IFC study "The next 4 billion" (2007), analyzing the market sizes and business strategies in the world's poorest areas (the BOP). The approach suggests that enterprises not only have a responsibility to the world's poor, approximately 2/3 of the population, but that there is great business potential in investing in the BOP, since it represents a huge untapped but different market where profits

[25] Freely translated from Thomsen, S. (2005: 151).
[26] Dahl Rendtorff, J. 2004

are driven by volume and capital efficiency rater than high margins. The box below shows a main advantages MNCs have if they engage in the BOP:

• **Resources**. Building a complex commercial infrastructure for the bottom of the pyramid is a resource- and management-intensive task. Developing environmentally sustainable products and services requires significant research. Distribution channels and communication networks are expensive to develop and sustain. *Few local entrepreneurs have the managerial or technological resources to create this infrastructure.*

• **Leverage**. MNCs can transfer knowledge from one market to another — from China to Brazil or India - as Avon, Unilever, Citigroup, and others have demonstrated. Although practices and products have to be customized to serve local needs, *MNCs, with their unique global knowledge base, have an advantage that is not easily accessible to local entrepreneurs.*

• **Bridging**. MNCs can be nodes for building the commercial infrastructure, providing access to knowledge, managerial imagination, and financial resources. Without MNCs as catalysts, well-intentioned NGOs, communities, local governments, entrepreneurs, and even multilateral development agencies will continue to flounder in their attempts to bring development to the bottom. *MNCs are best positioned to unite the range of actors required to develop the Tier 4 market.*

• **Transfer**. Not only can MNCs leverage learning from the bottom of the pyramid, but they also have the capacity to transfer innovations up-market all the way to Tier 1. As we have seen, Tier 4 is a testing ground for sustainable living. *Many of the innovations for the bottom can be adapted for use in the resource- and energy-intensive markets of the developed world.*

Box 1: Investing in the BOP. Source: Prahalad, C. K. and S. L. Hart 2002: 11

Prahalad and Hart see it as an opportunity for business, governments and civil society to join a common cause in trying to reduce the tension between free trade and global capitalism and environmental and social sustainability. For the enterprises this requires an acknowledgment that products and services for tier 1 (or the richest) consumers are often not appropriate for the BOP, and therefore different approaches are required including changes in credit and income generation, technology, costs and distribution.[27]

The business case

This debate naturally points frequently to the business case for CSR. In general the concept of the business case of CSR has a clear origin in the new institutional economics' strategic approach. CSR not only represents costs for the enterprises, on the contrary CSR can result in various advantages. CSR can affect a company's sale, purchasing, and recruitment of new staff positively.[28] Furthermore it can reduce the legal risks, secure an improved

[27] Prahalad, C. K. and S. L. Hart 2002
[28] Thomsen, S. 2005

reputation, create innovation, and increase the motivation among the employees, all of which lead to increased sustainability of the enterprise.

It can be argued that if businesses are striving after both profit and being good corporate citizens, promoting the business case is just one among different incentives. However M. Blowfield and J. G. Frynas (2005) questions the dominating role the business case has gotten in the CSR debate:

" *[…] if consideration of a social, economic or environmental issue depends on there being a business case for such consideration, what happens to those issues where that case cannot be made?*" (Blowfield, M. and J. G. Frynas 2005: 512)

Furthermore there are many factors that influence whether or not there is a business case so it can be problematic to apply the same to a whole category of investments:

"*[…] the business case for particular actions differs according to various factors including the company's visibility, location, size and ownership structure, and the sector and market segments in which it operates*." (Fox, T. 2004: 31)

Thus for CSR to keep its credibility it is important that the ethical behaviour related to the code of conduct is a main factor for the enterprise not just a part of their strategic communication.

Corporate governance

CSR within companies finds expression in corporate governance and can also directly or indirectly be influenced by good governance within the public sector. Furthermore it is important for enterprises' social and political legitimacy to have a sustainable management strategy that takes into account the social context and the norms and values of the society.

Two aspects of good corporate governance have particularly been evident in the last decade that is CSR, and besides that increasing requirements for accounting in order to secure transparency and accountability. CSR can be incorporated into accounting principles by introducing the Triple Bottom Line approach (TBL) that includes both the social and environmental aspects next to the traditional economic bottom line.[29] Further there are various widely-used attempts to measure or certify CSR efforts, among which include SA8000, the Global Compact and the Global Reporting Initiative. These are in general intended to influence the probability that enterprises are adhering to CSR principles.

Following new institutional economics arguments the financial and non-financial rules and principles for reporting contributes to a reduction of the transaction costs by increasing the transparency and reliability of both the financial, environmental and social bottom lines. With this approach the likelihood of internalising externalities via the market is increased.[30] The extended accounting is from a stakeholder approach[31] as a shift in the traditional concept of profit from pure 'shareholder value' to 'stakeholder value'. The shareholders are not the only stakeholders to an enterprise; enterprises influence various stakeholders whose interests are tried to be taken into account, however problematic, in the above-mentioned accounting and certification methods.

Stakeholders

The stakeholder approach, advocated by E.R. Freeman, among others, considers enterprises as social institutions that are an integrated part of the market economic system and is based on the concept of the 'common good' as described above. This stakeholder approach is thus combining an outset in new institutional economics with a more normative stand. The responsibilities of enterprises are reaching past the shareholders to a larger amount of stakeholders. These stakeholders can narrowly be described as the groups or individuals that matter for the survival and success of the enterprises,[32] and broadly as all groups or individuals that affects or is affected by the enterprise.

The stakeholder approach is based on a concept of fair management where stakeholders are seen as a kind of contract-holders i.e. that if two parties enter into a contract that also

[29] Elikington, J. 2001
[30] Kirkelund, O. 2005
[31] See below.
[32] The narrow definition is the basis of more pure new institutional economics approaches, such as M. Porter.

affects a third party; the third party is seen as being a part of that contract as well[33] and is based on an attempt not to discriminate against stakeholders.[34]

According to S. Thomsen (2005) welfare economics focuses on the idea that a connection between profit, entrepreneurs and innovation has been important for the growth in the capitalistic society. Hence the correlation between the enterprises and the stakeholder-interests can be seen as a part of the process of innovation in the market economy. In this approach the market economy is based on freedom of contract rather than profit maximisation.[35]

Stakeholder theory has an implicit time aspect where future generations and future investors are defined as stakeholders as well. As a consequence the enterprises cannot justify a short-term approach but have to measure the consequences of their actions in the future, thus economic, social and environmental sustainability is important for an enterprise.

Stakeholder-focus and CSR is not far from each other and the success of CSR is often linked with stakeholder dialogue. When business, public sector and civil society representatives discuss CSR related matters the decisions tend to have a high legitimacy among the stakeholders. However stakeholder-based decisions cannot be neutral, the balance of power between the external stakeholders might not represent the actual weighted dispersion of stakeholders affected by the concerned decision. Further some stakeholders might be represented by an organisation that has different priorities and others might not be represented at all. Another aspect is 'invisible' stakeholders such as future generations, nature and animals all of which are important stakeholders in the sustainable development debate, but whom might be distanced from the often rather short-termed focus of internal as well as external stakeholders:

[33] Based on the principle of externalities.
[34] Based on the principle of agency: take all stakeholders into consideration, the principle of governance: non-discrimination, and the principle of limited mortality: take time into consideration. (Dahl Rendtorff, J. 2004.)
[35] Thomsen, S. 2005.

"*The question of who gets represented is not merely an academic nicety, but has profound implications for the well-being of certain members of society in developing countries.*" (Blowfield, M. and J. G. Frynas 2005: 10)

There is no legal definition of stakeholders, which results in the inclusion and definition of stakeholders purely being based a strategic choice of the firm, and therefore most likely based on who are primary stakeholders, i.e. stakeholders that are relevant for the business case of CSR.

Developing countries pose certain questions to the stakeholder approach: M. Blowfield and J. G. Frynas (2005) are putting some of the problems as follows:
"[…] *stakeholder engagement presents particular challenges in a developing-country context where factors such as language, culture, education and pluralistic values can all affect the process of negotiation and decision-making. In addition, we need to consider whether some of those thought of as stakeholders, such as workers and local communities, can participate directly or are dependent on the services of proxies such as trade unions and NGOs. If the former is the case, are the voices of those known to have little influence being heard? If it is the latter, are the issues raised really the priorities of the poor and marginalized, or rather those that have the most resonance with the civil society organizations and their funders*?" (Blowfield, M. and J. G. Frynas 2005: 9)

CSR and developing countries

Besides the aspects mentioned above, other areas of CSR are to a certain extent particular to developing countries.

Developing countries in general have less stringent regulations for the enterprises and lower labour costs, and a majority of foreign direct investment is driven by the related lower costs connected to compliance, operation and wage, and less likely because of certain know-how and raw materials. Therefore CSR requirements can be seen as a way of imposing indirect barriers to trade on the developing countries in order to maintain jobs in the western countries or for the MNCs to have less competition.[36] By introducing CSR requirements to developing countries the profit of investing compared to the transaction costs can be reduced and result in a decrease in foreign investment. Another fear for developing countries is that CSR requirements result in difficulties in finding markets for their products.

SMEs and local enterprises can have problems with the CSR-related costs connected to monitoring, auditing and certifying. And in relation to that local enterprises often have less reputational gains from adhering to CSR principles since CSR primarily is a western demand. However local companies and particularly SMEs might benefit from having a greater knowledge of local culture and political context and thus the norms and values. Furthermore they might be closer connected with the local community and civil society groups.

CSR requirements imposed on the local companies as a part of MNCs supply-chain management can be problematic for some local suppliers if they are subcontractors for many different enterprises and thus have to comply with various codes of conduct. But some MNCs are directly using CSR in the supply-chain and thus hold the direct responsibility for costs connected with CSR training and monitoring, among others. The downside to this is perhaps that such a form of supply-chain management is expensive and might result in a decrease in the numbers of suppliers to only a few strategic enterprises.

Despite the many difficulties connected with CSR and local enterprises Raynard, P. and M. Forstater (2002) are only some of the contributors that point to a business case of CSR for enterprises in developing countries.

The positive aspects of CSR combined with good corporate governance can be summarized as follows:

[36] Raynard, P. and M. Forstater 2002 and Crook, C. 2005.

- Better alignment with current and emerging consumer concerns and access to new markets.
- Partnership opportunities
- Operational cost savings
- Improvements in productivity and quality
- Enhanced relationships with local staff, suppliers, customers and local government.
- Learning and innovation

Box 2: SMEs' case for CSR. Source: Raynard, P. and M. Forstater 2002

As the above indicates it is a balancing act to address CSR in developing countries, there is a need for the central government to create a framework that secures a continued profitability of investing in developing countries in times of increased CSR and an aim for sustainable development. This imposes a lot of demands to the public governance that in order to introduce both adequate regulation and maintaining a realistic level of compliance costs for MNCs and local enterprises have to be based on transparency, reliability and accountability.[37]

Unfortunately the capacity of the state apparatus in developing countries is often not sufficient to secure such a framework and to formulate clear and comprehensive national development goals as a guideline for national sustainable development. Thus the CSR debate has to address the responsibility of enterprises in such conditions:
"*One, if not the, key aspect of the development context is the tendency for legal, administrative and political institutions to be deficient in the development, implementation and enforcement of appropriate standards.*" (Reed, A. M. & D. Reed 2004: 6)

Reed and Reed (2004) suggest CSR to act as a mediator between market failure, public administrative insufficiency and the aim for sustainable development, but eventually the state will have to manage relevant regulation:
"*[…] issues such as minimal environmental standards should only be conceived of as issues of CSR under the conditions of institutional failure. Under these conditions, corporations have a responsibility to establish rules, but only on a temporary basis until*

[37] See chapter 2.

other more legitimate arrangements can be developed. The basic lessons here are that many issues of CSR should move beyond the realm of CSR by being incorporated into a legal framework and that corporations should support such moves to a CA agenda rather than oppose them." (Reed, A. M. & D. Reed 2004: 6)

However as seen in the discussion above, there are several different views of CSR and various arguments for why CSR should co-exist with good governance for example in order to address societal tasks in a more efficient, sustainable or faster way through for example PPP.

Turning the focus back to the MNCs operating in developing countries, it is essential to note that mainstream CSR arguments and strategies are derived from a western context and that it is important for the MNCs to try to correspond to local understanding of legitimate behaviour in order to generate sustainable success.[38]

[38] Barkemeyer, R. 2006

2. Can the public sector promote private engagement in sustainable development?

This chapter addresses CSR from the state-side assuming that state institutions are pursuing objectives that are reflections of a path-dependent group-based identity based on a range of factors. Among these factors affecting the objectives the following should be mentioned: the identities of citizens and communities in the political environment; the distribution of capabilities for appropriate political action among citizens; groups and institutions, accounts of political events and responsibility for them (interpretations of political history); and the ways in which the political system adapts to changing demands and changing environments.[39]

Within the mainstream approach or post-Washington consensus[40], which is also gaining momentum in developing countries and is dominant in the donor community, agents are believed to be rational and thus to be able to define their priorities within the limits of the level of information etc. These priorities are not influenced by a drive for the "good of the community" and therefore within this approach the ideal state apparatus is one that provides an arena for voluntary exchange among interests, thus:

"*If leaders wish to control the outcomes of this self-seeking behavior, they do so by designing incentives that induce self-interested individuals to act in desired ways as much as possible*" (March, J. G. and Olsen, J. P. 1997: 144)

Hence if the business sector can be motivated to contribute to nationally set development goals there is a motive for the state to examine the motivation factors and create an enabling environment for CSR. Another case for the public sector's endorsement of CSR is addressing the CSR critique related to it being undemocratic. If the public sector is guiding the enterprises along the lines of nationally set targets, this part of the CSR initiatives are at least endorsed by civil servants (and/or politicians) that are a part of/and chosen to represent the society.

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[39] March, J. G. and Olsen, J. P. 1997.
[40] Derived from new institutional economics.

However the governments in the developing countries often face a dilemma between the social and environmental concerns, e.g. protecting labour and environmental resources that make economic growth possible, and their need for exploiting natural resources and promoting exports to guarantee their financial survival.[41] The way that this dilemma is reflected in the national development goals are, besides the specific economic, social, environmental, cultural and political context, dependent on the balance of power within and between the ruling party, national groupings, the present international donors and the business community. Therefore developing countries' paths to sustainable development as defined above[42] might not be straight and clear, it is dependent on the context and the historical path, and on the weight of risks and advantages on the base of what is considered appropriate.

The paths of developing countries have certain things in common when it comes to how the public sector is seen and what theories are behind it and therefore their paths might all to a varying extent have been affected by the mainstream and dominating developing state theory. This have created many different conceptions of what is appropriate roles for the public sector, some of which are present in a number of similar drivers and constraints for the public sector to engage in CSR. The conceptions of what is appropriate will of course depend on whether you ask an international or an international agent and of which the agent has in the system. T. Fox et al (2002) have tried to summarize some the overall drivers and constraints for the public sectors to engage in CSR enhancement that are potentially common among the developing countries seen from a World Bank point of view:

[41] Lund-Thomsen, P. 2004
[42] See the section on methodology.

Driver	Key constraints
International policy processes • Intergovernmental frameworks • Regional intergovernmental cooperation • Application of multilaterally agreed guidelines (for example, OECD Guideliness)	• Lack of public sector capacity to engage in negotiation and implementation • Lack of take-up of CSR issues in regional processes • Lack of engagement with processes and guidelines (for example, OECD Guidelines National Contact Points)
Trade and Investment promotion • New pro-CSR export market opportunities • CSR-related requirements being introduced in existing export markets • The need to attract and retain domestic and foreign direct investment	• Lack of awareness of "green" or "ethical" market opportunities in export markets • Lack of capacity to equip domestic industry to meet CSR-related export requirements • Lack of capacity to engage in key standards-setting processes • Lack of understanding on the link between public sector interventions on CSR and economic competitiveness
Maintaining minimum standards • Demand from business and civil society for a level playing field of social and environmental standards that allows the market to reward leaders • Weak enforcement through traditional activities	• Lack of capacity to maintain and enforce minimum standards • Perception that corporate social responsibility is about voluntary business action, not public sector action • Weaknesses in the institutions of civil society that are necessary for cooperative management approaches to be effective
Partnership and civil society demands • Demonstrations of the potential value of partnerships and private sector engagement to address complex social and environmental issues • Domestic civil society pressure to improve environmental and/or social standards (for example, from workforce)	• Lack of financial or human resources to participate in partnerships • Weak institutions of civil society (for example, trade associations, NGOs, trade unions, community based organizations • Weak organized labor
Consumer demand for sustainable goods and services	• Lack of domestic consumer demand

Box 3: Public sector drivers of and constraints for CSR. Source: Fox, T., H. Ward and B. Howard 2002: 20.

As the box shows the drivers and constraints for CSR within the public sector are divided into intergovernmental processes, trade and investment promotion, maintaining minimum standards, partnerships and civil society demands and the consumer demand for pro-CSR goods and services. To this the drivers of combating tax-avoidance and finding a basis for new minimum standards could be added, along with the more general drivers related to poverty reduction and sustainable development, such as job-creation, innovation and knowledge spill-over, infrastructure, environmental protection and the like.

The public sector can set the conditions for the private sector's contribution to these priorities through incentives and disincentives, such as regulation, tax, and guidelines, and thereby enable enterprises' involvement in the sustainable development of the country.

Good governance

In order for CSR to gain a footing in developing countries as a serious contributor to sustainable development good public governance is needed. A set of well-defined national development goals are needed in order for the public sector agents to guide business actions towards a more comprehensive and thus sustainable development path. Furthermore besides national goals more specific good governance aspects are needed in order for the public sector to create an enabling environment for CSR, both to help promote CSR in the prioritized areas and to make regulations, guidelines and various initiatives transparent and intelligible for the business community and civil society.

According to the critical realist B. Jessop (1998) governance refers to the modes and manner of governing. There exist various forms of governance since the form is conditioned and influenced by the institutional settings, and thus every state and organisation has its own form of governance. Hence the globalisation has brought with it new forms of governance since all agents in a specific cooperation are participating on the basis of its own institutionalised norms. Through the dialogue in the cooperation new forms of governance are created reflecting both the involved parties' way of achieving a common goal and the mutual balance of power:

"*The most complex form of governance is found in attempts to facilitate the mutual understanding and co-evolution of different institutional orders to secure agreed societal objectives*." (Jessop, B. 1998: 36)

Governance is based on different ideas of "good governance" and governance further exists on different levels, i.e. between individuals, organisations, and both on internal and hierarchic governance levels. The form(s) of governance in an organisation is not constant since it both is a result of the historical path of which it is a part and a mediation between new decisions and various external influences. Thus the forms of governance in various developing countries can be affected by the mainstream agenda on CSR, development and good governance, but the resulting form of governance will further be dependent on the national historical path. The balance of power can further affect how strong the new influence is.

Currently the debate in the development community (e.g. academics, donor agencies, development country states) is dominated by an approach inspired by new institutional economics in their quest for securing, agreed societal objectives that is development, i.e.

economic, institutional, social and environmental development varying from different national settings. In this approach governance is defined as:

"[…] *the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respects of citizens and the state for the institutions that governs economic and social interactions among them*." (World Bank Institute, 2004)

Governance should according to this be managed neutrally by technocrats with a possibility of bottom-up initiatives. Good governance is within this approach referring to effective and accountable institutions within the public sector that should supplement the market in the most efficient way, thus the capacity of the public sectors in developing countries has to be enhanced.

Good governance is overall including the following indicators: 1. Voice and external accountability; 2. Political stability and lack of violence; 3. Government effectiveness; 4. Lack of regulatory burden; 5. Rule of law; and 6. Control of corruption.[43] These factors are needed for securing 'good' development and for avoiding distorting the policy-making and misallocation of human and physical resources that slows income and increases poverty.[44] Further the state has to correct for market failures and secure competition that is prerequisite for economic growth and sustainability.

Thus good governance and capacity in the developing countries' administrations are contributing to their ability to create an enabling environment for CSR and the below discussion about the enabling environment should be seen in the light of this. Despite the risk that this approach is linked to a simplification of the nature of the developing world's social and environmental problems as being simply an outcome of policy and governance

[43] Kaufmann, D. 2002
[44] Kaufmann, D. 2002

failure,[45] it is within the above-mentioned framework that the majority of contributions to the debate concerning the role of the public sector in enhancing CSR are derived.

Creating an enabling environment

There is not always a clear business case for the enterprises to align their investment with national development goals therefore it can be crucial to create an enabling environment:
"*[…] the inescapable reality that the 'business case' for responsible business is inherently uneven, and that it therefore needs to be created and sustained where it does not exist. Furthermore, it means recognizing where business activities are currently aligned with development goals, and applying a mixture of policy instruments and interventions to create this alignment where this is not the case. At the heart of such an approach is an understanding of the 'enabling environment' for responsible business practice, and its relationship with development priorities*." (Fox, T. 2004: 30-31)

In many developing countries not only the drivers for business to engage in CSR is weak, but the enforcement of regulation is weak as well, therefore strengthening compliance through enforcers and inspectorates is a main feature of creating an enabling environment.[46] In order to address this problem of lacking private drivers for CSR and weak capacity to reinforce such drivers the capacity should be strengthened within (i) government agencies and public governance frameworks, (ii) business and business associations, (iii) specialist local intermediary organisations, and (iiii) civil society and workers' organisations.[47]

This has to be a focus of both the developing country and the engaged donor agencies, that can empower the mentioned agents through different measures through training, effective coordination, administrative systems etc.

[45] Lund-Thomsen, P. 2004
[46] Newell, P. 2006
[47] Fox. T. 2004

The public sector roles

In order to create an enabling environment for CSR the public sector has to undertake roles that can endorse the private sector to get aligned with the nationally defined development goals. There are five overall roles that can be used alone or in combination in the different initiatives that can be relevant in the country-specific context. The roles are mandating, facilitating, partnering, endorsing and demonstrating. By using these five role a sustainable approach to engaging both the private sector and the civil society in the agenda for making business contribute more specific to areas that are relevant for the national developmental goals are obtained.

The roles can be defined as follows:
<u>Mandating</u> (*Laws, regulations, penalties, and associated public sector institutions that relate to the control of some aspects of business investment or operations*), <u>facilitating</u> (*Setting clear overall policy frameworks and positions to guide business investment in CSR, development of nonbinding guidance and labels or codes for application in the marketplace, laws and regulations that facilitate and provide incentives for business investment in CSR by mandating transparency or disclosure on various issues, tax incentives, investment in awareness raising and research, and facilitating processes of stakeholder dialogue (though not necessarily in the lead).*), <u>partnering</u> (*Combining public resources with those of business and other actors to leverage complementary skills and resources to tackle issues within the CSR agenda, whether as participants, convenors, or catalysts*), <u>endorsing</u> (*Showing public political support for particular kinds of CSR practice in the marketplace or for individual companies; endorsing specific award schemes or nongovernmental metrics, indicators, guidelines, and standards; and leading by example, such as through public procurement practices*), and <u>demonstrating</u> (*Public sector agencies can demonstrate leadership to business in the exemplary way that they themselves engage with stakeholders or promote and uphold respect for fundamental rights.*) (Ward, H. 2004: 5 and 28).

The first four roles can more clearly be seen in the box below where they are combined with the connected tools:

Mandating	"Command and control" legislation	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	"Enabling" legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

Box 4: The central public sector roles in strengthening CSR. Source: Fox, T., H. Ward and B. Howard 2002: 4

CSR as a tool for development

It is important to secure local ownership of the concept of CSR by defining the concept and priorities based on a local understanding of CSR. As mentioned in the previous chapter both enterprises and government agencies in developing countries can fear that so-called "foreign CSR" is a form of Western protectionism in disguise, or can be seen as pure philanthropy (i.e. only costs), as non-profitable or even as disabling for local companies, especially SMEs.

In general there are many obstacles for companies in developing countries to engage with CSR, e.g. lack of capital, lack of stability (future prospects and seasonal variations), lack of knowledge about CSR, and diverging CSR or codes of conduct. Furthermore some parts of the "foreign CSR" are simply not in line with national laws. Therefore not only must the business case be promoted but also a nationally defined CSR concept derived from a process where the government has to involve both the business community and the civil society, in order to create broad local ownership. Within this national frame specific certification and measures can be developed, since often the international CSR certificates such as SA8000 are very expensive and furthermore often does not improve an enterprise's local reputation. Local certification is more relevant to both the enterprises and the local stakeholders and will be connected with lower costs compared to international certificates.

When using the above-mentioned measures of mandating, facilitating, partnering, endorsing and demonstrating, the consequences for all levels of business should be taken into consideration, not only MNCs, in order to for example avoid that an unrealistic level of costs is imposed on local SMEs resulting in them having to go bankrupt or operate in the informal sector. It could be rewarding to address the needs and expectations of the local, directly affected stakeholders and thus increase SMEs' transparency on this basis instead of focusing on western consumers. Furthermore the alignment of businesses to the development goals can be improved by elaborating on the BOP idea, as mentioned in the previous chapter, in order to involve the private sector in the creation of sustainable livelihoods for the poor.[48]

Another aspect with regards to MNCs is for example promoted by United Nations Industrial Development Organisation (UNIDO) in the expansion and training of the supply-chain in order to transfer assets and skills to the local community and at the same time reduce their transaction costs in the longer term.[49]

As a substitute for, or supplement to, regulating in areas related to CSR, CSR can indirectly be encouraged, for example, by making it compulsory to report on CSR initiatives without the public sector agent specifying CSR.[50]

Many approaches to CSR focus on the voluntary nature of corporate CSR initiatives, but CSR should be enabled by the public sector and preferably a CSR agenda can end somewhere between being completely voluntary, and therefore maybe be characterised by randomness, and 'demand and control' that tends to address the symptoms rather than the underlying problems. The golden mean between the two above-mentioned approaches could be minimum standards that will enable the market to reward higher standards and innovation.[51]

"*Voluntary and regulatory approaches have too often been treated as exclusive to each other, rather than as options within a balanced approach to eradicating bad (socially irresponsible) behaviour while encouraging responsible activities. Indeed, CSR practice is often embedded within the legal and regulatory environment, particularly when adherence to (often unenforced) legal minima are treated as a baseline for good practice.*" (Fox, T. 2004)

[48] Prahalad, C. K. 2006
[49] UNIDO 2006
[50] Blowfield, M. and J. G. Frynas 2005.
[51] Fox, T., H. Ward and B. Howard 2002 and Hart, S. L. 2005.

T. Fox, H. Ward and B. Howard (2002) have tried to categorize some of the main CSR themes for developing countries and how the government roles can be translated into more concrete tools. These tools of course vary between countries and thus they are defined in rather open way. In the next chapter the aspect of partnering will be discussed in more detail.

Public sector role / CSR theme	Mandating	Facilitating	Partnering	Endorsing
Setting and ensuring compliance with *minimum standards*	Defining minimum standards and establishing targets; establishment of enforcers and inspectorates; supporting citizen legal action	Tax incentives and penalties; ensuring access to information; facilitating understanding on minimum good practice abroad; naming and shaming poor performers; frameworks for voluntary agreements; supporting civil society	Working with multilateral agencies and civil society to build capacity	
Public policy role of business	Reforming political financing; legislation as policy setting for voluntary action; mandatory disclosure of payments to public bodies	Engaging business in public policy processes; clearly defining societal priorities; including CSR elements in other policy areas	Forums for debating public policy proposals	Including business representatives in policy arenas
Corporate governance	Stock exchange regulations and codes; company law	Implementing international principles	Multi-stakeholder code development	
Responsible *investment*	Guidelines for FDI; requirements for government loan guarantees	Facilitating legislation for SRI; guidelines for public investments; linking investment opportunities to SD policy	Public-private partnerships	Endorsing metrics and indicators; supporting civil society initiatives
Philanthropy and community development	Mandating corporate contributions	Tax incentives; "timebank" schemes; league tables to promote peer pressure	Public-private partnerships	Publicizing leading corporate givers
Stakeholder engagement and representation	Licensing requirements for stakeholder consultation	Supporting civil society engagement; defending key stakeholder interests in key forums	Facilitating dialogue and multi-stakeholder processes	Association with particular multi-stakeholder processes
Pro-CSR *production and consumption*	Pollution taxes; command and control legislation driving pro-CSR innovation	Pro-CSR export initiatives; capacity building; business advisory services; enterprise development; public procurement; voluntary CSR labels; education and awareness raising; support for civil society action; tax incentives	Joint government-industry investment in capacity; developing sectoral guidelines	Public procurement; pro-CSR management in public sector bodies; labeling schemes
Pro-CSR certification, *"beyond compliance" standards* and management systems	Mandatory environmental management systems	Information and capacity building; supporting business-to-business partnering / mentoring; public procurement; tax and regulatory incentives; supporting supply chain initiatives and voluntary certification	Engaging in standards-setting processes	Endorsing specific standards systems and approaches; public procurement and public sector practices
Pro-CSR *reporting and transparency*	Mandatory reporting	Guidelines for voluntary reporting; informal incentives	Engaging in multi-stakeholder dialogue on guidelines	Supporting instruments for peer pressure; commending reporters
Multilateral processes, guidelines and conventions	Implementing guidelines through legislation	Capacity building and technical support	Negotiating agreements; shared monitoring	Endorsing guidelines

Box 5: Classification of public sector tools. Source: Fox, T., H. Ward and B. Howard 2002

An example of a concrete tool to be used in a developing country from UNIDO's CSR programme in Vietnam 2006-2010 is relevant mentioning. The programme is based on a multi-stakeholder approach with representatives from various government agencies, business associations, the main employers' organisation etc. and will take a nationally defined CSR concept as its point of departure.

The programme has ten objectives that shortly can be defined as follows:

Output 1: A tripartite structure reflecting employers, labour and Gov's views on CSR Output 2: A Vietnam-specific definition of CSR Output 3: Awareness Campaigns Output 4: Training Courses and Contribution to MBA Programmes Output 5: A Network with Public and Private Partners Output 6: Four Development-Oriented Joint-Ventures Output 7: TBL Service for Client Firms of the Vietnam National Cleaner Production Centre Output 8: Linkages with Ethical Trade Institutions Output 9: A CSR-friendly Policy Environment Output 10: Harmonized Regulations

Box 6: Creating a local CSR framework and tools. Source: UNIDO 2006: 31-35

One main difference between the two different sets of tools is the more voluntary approach used in Box 6, where the mandating aspect seems to be left out. This approach is based on creating awareness of CSR and the relevance and need for sustainable development together with an attempt to create and emphasize a business case.

State-subsidized CSR

Despite the many arguments for CSR much suggest that the enterprises to some extent have to be encouraged in order to shoulder societal responsibilities. In an analysis of enterprises' engagement in CSR[52] it is shown that oftentimes more than simply a business case and a good reputation is needed for getting enterprises to contribute to addressing the societal tasks that traditionally have been handled by the state.[53] Initiatives that can address this problem could be subsidies, public private partnerships (PPP) or other forms of support.

According to O. Kirkelund (2005) three main aspects are important in order to engage the enterprises which are a voluntary basis, the role of the public sector as active and willing to shoulder the administrative burdens, and the economic aspect. If CSR initiatives are linked with overly burdensome costs public supportive actions become relevant and prolong the initial partnership process and thereby reduce the gains. However as discussed in the forthcoming chapter, a multi-stakeholder debate is relevant in a development country context and increases the likelihood of a locally responsive private sector presence. The

[52] A survey of Danish enterprises, Netværksprisen 2004, The Copenhagen Centre
[53] Kierkelund, O. 2005

mainstream approach offered by O. Kirkelund is based on the assumption that the private sector in many areas can manage social and/or environmental tasks better than the public sector. Hence it pays to partner with the private sector in order to address some of the societal tasks more efficiently through a form of state-subsidised CSR.[54]

As seen in the above discussion the public sector continues to have a role in the development of the world's periphery, however different due to the open market system within which the countries in a growing extent are operating in. The important role of the public sector is evident within the mainstream development approach. The consensus has changed from a view of a state that has to compensate for or enable business to engage in the areas the market passes by due to market failures that are impediments to socio-economic growth. Whereas in the contemporary debate the state can, on the basis of formulations of national objectives, engage in building capacity for creating an environment that enables and leads business to contribute to the national development.

Using CSR in a local variation, aligning it with national set standards and goals, enables CSR to be an important tool for sustainable development. Furthermore state engagement in CSR is looked positively upon by especially MNCs because it acknowledges good performers. The importance of a local consensus about CSR has to be strongly emphasized, in order to allow local enterprises to participate in the formal economy on both national and international markets, and for the local community to feel the actual benefits of an increased CSR engagement.

How CSR is addressed on the public agenda depends strongly on where the pressure is coming from and how the balance of power is between the various agents. If CSR has to be based on national ownership the definition has to be based on a national multi-stakeholder debate. With CSR defined it can be incorporated into the development policies within the five areas of mandating, facilitating, enabling, enforcing and demonstrating thus making

[54] For further discussion se chapter 3.

CSR a combination of regulation and self-regulation and a continuous process leading to increasingly higher standards and more sustainable development.

Lastly it should be mentioned that unfortunately not all developing country states are having the capacity, unity or will to enable a national CSR concept, which leaves a challenging role for local NGOs, businesses and international donor agencies if CSR should be a positive and comprehensive contributor to sustainable development.

3. Public-Private Partnerships in development

This chapter addresses the partnering aspect of the public sector roles discussed in the previous chapter, with a special focus on Public-Private Partnerships (PPPs). There are several implications related to defining and managing PPPs including the often weak institutional capacity of the public sector agencies in developing countries. On the other hand PPPs can provide an opportunity for the public sector to secure delivery of relevant public services and ensure a high quality output by focusing on the public agency's own, as well as the private partner's, core competencies by cooperating in a partnership. By further involving the civil society in multi-stakeholder arrangements the political stability and pro-poor relevance increases considerably and give room for the partnership to develop in accordance with national goals.

Public-Private Partnerships

In many ways PPPs can be a specific tool for sustainable private sector engagement in development, PPPs can help creating benefits for all the stakeholders being public institutions, businesses, NGOs and thus the local community. Additionally PPPs are getting more and more relevant with the increase in FDI compared to ODA in developing countries, it reveals new finance and knowledge opportunities and helps addressing the 'complexity and interdependence of social and environmental development that requires a combination of sectors and institutions to respond to development challenges and opportunities.[55] However when addressing PPPs it is important to bear in mind that there are a lot of management implications involved that requires well-planned partnerships and ongoing evaluations etc. Thus all partnerships have to be specific to the context in which they are supposed to operate.

There are various aspects that have to be taken into account when introducing PPPs and some aspects are characteristic for developing countries such as 'a huge diversity of demand requirements, supply constraints, regulatory frameworks, political realities, and

[55] M. Diara et. Al. 2004

levels of private participation'.[56] But the forms and variations of PPPs are in a constant progress in order to address the specific conditions, opportunities and constraints that are present when development opens up for new PPPs. The PPPs can range from:
"large-scale concession contracts involving private sector finance, to smaller-scale service arrangements involving multiple parties from the for-profit and/or not-for-profit sectors. There is also a wide choice of product-development, infrastructure-expansion and service-delivery technologies available, as well as a raft of financing instruments..." (World Economic Forum 2005a: 39)

One of the main problems with PPPs is the variation in interest and power. When the public sector is opening up for close cooperation or transfer of responsibilities to private sector agents the question of power becomes an issue on different levels in the developing country context. On the societal level power problems such as fears that the increase in PPPs will give too much power away from national agents to the private sector which thus can result in a step away from nationally set developing goals due to the decrease in public control and responsibilities:
"*In low- and middle-income countries (LMIC), where the benefits of collaboration may be most keenly felt, fears have arisen that PPPs may exhibit characteristics which might further reinforce negative elements of aid regimes, such as the distortion of domestically set priorities and policies.*" (Buse, K. & A. Harmer 2004: 50)

Therefore it is important that the foundation is well analysed and planned by the public sector before entering into PPPs, these should only be established when the specific public partner is mature and capable to handle and monitor a PPP and in a non-hostile local environment. Thus the legitimacy of a PPP is needed for it to function well and be relevant for the local society:
"*PPPs have legitimacy to the extent that they are democratic, representative, and transparent […]. PPPs gain legitimacy by providing a good or a welfare enhancing intervention (output), and by reflecting the wishes and resources of those for whom the*

[56] World Economic Forum 2005a

partnership is set up to help (input). The legitimacy of PPPs remains highly contentious, particularly in respect of private-sector involvement." (Buse, K. & A. Harmer 2004: 53)

However as mentioned earlier there can be a lot of advantages by starting a PPP, if handled well the partnering with the private sector can help improve both CSR and public governance:
" *[..] power may also be exercised through partnerships to encourage improved corporate social responsibility; to bring about better practices within public bureaucracies; to open-up decision-making to previously marginalized groups, such as civil society organizations; and more generally to promote good governance.*" (Buse, K. & A. Harmer 2004: 50)

On the operating level, the partnerships are based on power that 'may be exercised on the basis of coercion, either political or financial, but also on the basis of authority and legitimacy'[57], furthermore the partners in a partnership may perceive that there are inequalities which 'can result in frustration and lack of trust' in the relationship. In addition to that a range of operational and strategic obstacles such as 'lack of mutual understanding; different modus operandi; different timeframes; lack of clarity and communication and lack of skills and competencies'[58], all of which calls for good governance including transparency and accountability:
"*These preconceptions, differing interests, and power plays make transaction costs in PPPs high. Strong governance arrangements between partners are therefore all the more important.*" (World Economic Forum 2005a: 40)

As mentioned in chapter two the mainstream approach often assume that the private sector in many areas can manage social and/or environmental tasks more efficient than the public sector that is seen as merely a provider of a preferably sound operating framework, the state apparatus is ideally neutral and technocratic and consist ideally of non-political institutions in this approach. But if seeing the state apparatus as a part of a path dependent set of institutions that operates in a specific historic, political, economic and social context one

[57] Buse, K. & A. Harmer 2004: 51
[58] World Economic Forum 2005b:37-38

cannot avoid to take the context into account and consider whether the public sector are working efficiently in the given context or if a PPP actually could be relevant and realistic. If the latter is the case it is moreover important to have well-defined objectives, methods, interests and a clear division of labour in order to reach the goals set out for the PPP.[59] It is furthermore important to look at the private sector critically and be sure to engage companies with a comparative advantage and special competencies in order to secure a relevant and successful partnership.

The public sector

As mentioned in the previous chapter the institutional capacity is very important for the public sector in approaching the development issues, and therefore the institutional framework is important for PPPs to be successful. If the capacity of the public sector agency is too weak it might very likely affect the partnerships in a negative way, the PPP might get problems with inefficient 'rule of law, inefficient measures to tackle corruption and unnecessarily red tape and bureaucracy'[60]. Capacity building of the public sector in developing countries is therefore an issue that to a growing extent is included in contemporary donor agencies' programmes that are made in alignment with the national development plans:

"*The institutional environment in which PPPs operate has financial, operational and social implications, affecting start-up, transaction and operating costs of the PPP, as well as the transparency and accountability of the project to beneficiaries and the public.*" (World Economic Forum 2005a: 33)

Three key aspects has to be clear when starting a PPP, that is the division of roles and incentives among the partners concerning the provision, the financing as well as the regulation and monitoring in order to secure an acceptable outcome of the PPP.[61]

Along with the public sector's institutional capacity the quality of the partnership and the provision of products are likely to be higher if the PPPs are involving a broader range of stakeholders and this process furthermore reduces the political risks involved. Thus it will

[59] Jütting, J. (ZEF) 1999
[60] World Economic Forum 2005b: 41
[61] Jütting, J. (ZEF) 1999

strengthen the PPPs to involve the private not-for-profit sector in the partnership (see below).

Core competencies

If PPPs are based on an evaluation of competencies and comparative advantages the public sector can secure a high quality outcome which is very important also in relation to underbidding. The provision of public goods, if undertaken by the private sector, has to be of very high quality and be managed very carefully because of the political volatility. Furthermore by partnering with companies in for example providing training and/or education programmes the dominant path of modest knowledge spill-over from FDI in developing countries can change towards being countervailed and lead to a strengthening of the human capital.

Core competencies and PPPs are not only relevant in provision for the public sector but also in relation to the development of the local private sector in terms of technology and CSR. Another way in which CSR and development effects are spread through PPPs is with international donor agencies as partners, supporting MNCs in providing training and transfer technology to the local SMEs that are being part of the MNC's value chains as well as enforcing the SMEs to adhere to the MNCs code of conduct.[62] This of course requires training and financing and that is where the international donor agencies become very relevant because there is not always an evident business case for the MNC to take the CSR ideals the step further to include it into their value-chain management as a way of creating capacity in the SMEs. In this way the potential of the value-chain can be improved and aligned to development goals if the donor agencies set, teach, and monitor CSR standards for the partnership.

[62] UNIDO 2002.

Multi-stakeholder partnerships

The public sector has to consider in which areas PPPs are relevant and suited to meet the public needs and demands, and besides preparing the institutional framework for PPPs it is important to secure public support for the private involvement especially if it concerns areas such as public goods. Public support is often not secured just by informing about the efficiency gains, some sectors are more politically sensitive and are to a large extent a matter of ideals and values. This means that the form of PPP intended has to be chosen with concern and include an active engagement of civil society groups.

By making the partnership a multi-sector process the accountability and transparency together with the locally-adjusted form will make the partnership, and thus the provision or production, more likely to become effective. This kind of partnership will improve the likelihood that the companies are acting accountable to shareholders, stakeholders and the environment while engaging in areas that are aligned to national development goals.[63] Engaging the civil society still involves a range of problems besides capacity as discussed in chapter one, however there are a lot of gains including the a greater likelihood of integrating pro-poor technologies, local knowledge[64], better communication channels, and better ways of serving the poor.[65]

However engaging the civil society is not always a simple task in developing countries that might not have traditions for strong civil society groups, or there can be extraordinarily many groups because of rumours of money from international donors. Hence in order for the multi-stakeholder partnerships to function intentionally there has to be a focus on the institutional capacity within the NGOs to secure their ability to participate in a proper way.[66] This capacity building can be a focus for both the national government but often also for international donor agencies and international NGOs.

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[63] Stiglitz, J. E. 2006
[64] Such as priorities, beneficiary needs, affordability, gender and cultural sensitivities.
[65] World Economic Forum 2005a
[66] World Economic Forum 2005a

The public sector role of partnering in order to guide towards CSR objectives and national development goals can have different forms. Capacity building of civil society organisations, debating public policy and facilitate multi-sector dialogue and public-private partnerships are some of the tools that can have an important impact on the quality of the development due to the broad and multi-stakeholder engagement. Partnering can secure more sustainability and reduce the political risk.

Partnering can further help using the core competencies of the different sectors so that a higher quality is obtained and PPPs can be a part of a sustainable development securing that the capacity in the SMEs along the MNCs value-chains can be increased and thereby strengthen the knowledge spill-over that enables enterprises to expand or upgrade their cooperation with MNCs.

With engaging the private sector in partnerships and dialogue some of the financial and capacity gaps for development can be reduced and contributing to leading developing countries on a responsible trajectory to sustainable development. PPPs provide an alternative way for the public sector to secure a continuation of delivery of essential public services.[67]

However PPPs are complicated and should only come into existence if based on careful evaluations and a well-functioning public framework as well as public acceptance. It is important to base PPPs on the local context and not just as a product of a New Public Management approach that suggest less government more private sector as a general way to make service delivery more efficient. The state apparatus is not neutral and there are a lot of ethical and ideological concerns that has to be addressed before handing over traditional public tasks to the private for-profit sector.

[67] World Economic Forum 2005a

4. Conclusion

There are a variety of voices in the in the debate about corporate social responsibility and especially two main approaches are dominating the field; these are the new institutional economics approach and the stakeholder approach. Despite the differences there is to a certain extent a focus on the business case of CSR, which can lead to the consideration of stakeholders and the assessment of their needs to be based on strategic choices of who has the biggest impact on the enterprises, rather than who is affected the most, or who is the weakest. Furthermore some issues that are relevant for creating sustainable development are not being considered by the private sector due to a weak business case.

But CSR has not gained momentum due to profit- or image-strategic aspects alone, various aspects that are positive in a broader sense can result from companies engaging in CSR. For example CSR can act as a form of a mediator or an inspiration where public governance is weak and it can lead to increasingly sustainable production methods and higher standards.

In the mainstream debate MNCs are the main focus, but it is relevant to note that SMEs are contributing to a larger share of employment in developing countries and it is thus important to discuss CSR in relation to SMEs. Additionally the Western origin of CSR should be replaced by a definition based on the local context, reflecting the conditions, norms, rules and values of the society, and thereby securing increased national ownership and legitimacy of the concept.

In order for developing country governments to pursue national development priorities, CSR can be used as a tool for aligning the private sector with the national quest for sustainable development. By creating an enabling environment the public sector can help secure that CSR is not used as indirect barriers to trade, that MNC's investments will have more positive side effects than increased employment, and that externalities to a larger extent are internalised into the enterprises just to mention a few of the benefits. By mandating, facilitating, partnering, endorsing and demonstrating the public sector can support CSR through tools such as legislating, inspecting, providing incentives, capacity building, funding, awareness-raising, stimulating markets, forming partnerships with private and civil society actors, raising stakeholder engagement, and increasing the dialogue and publicity.

Public-private partnerships (PPP) can be mentioned as an example of a concrete way of implementing CSR as a tool for development. In PPPs the public sector can share the political and financial risks with the involved enterprises in otherwise non-profitable investments, or the MNC can be assisted in spreading CSR along its value chain or using safer and more environmentally sound production methods and training. With a clear focus on and capacity building for good public governance and engagement of the civil society the sustainability and pro-poor reach of a PPP can be significantly improved. Within such a framework the involved private sector agents are forced to act in accordance with the local CSR ideals on the trajectory towards the development goals. However PPP solutions are not always relevant, in some areas such as education and health there is political consensus against private interests getting involved, and in general it is necessary to keep a critical approach and make sure that potential private sector involvement are based on in-depth studies and not just are initiated for their own sake.

There can be a link between the private sector and a path to more sustainable development following national development goals if the public sector creates an enabling environment for development oriented-CSR. However while CSR increases private sector engagement it is important that the public sector strengthens the institutional capacity to enforce the relevant standards-setting, regulation, and monitoring as needed throughout the process. Private financing, innovation, performance-based approaches etc. offer a complementary means to fill the gap in development financing and capacity, and when welcomed in a strategic way by the public sector it can endorse a more responsible private sector presence responsive to locally developed goals and ideals.

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