MNC’s and poverty alleviation: a conceptual framework

Jo-Anna Russon
Queen’s University Management School
Queen’s University Belfast, Northern Ireland/UK
jrusson01@qub.ac.uk

Introduction

International development institutions appear to accept the role of business in global development challenges such as poverty alleviation. In 2003 the World Bank was reportedly ‘convinced’ that the private sector has a role to play in the fight against poverty (Wolfensohn 2003, p.19). The 2008 ‘Business and the Millennium Development Goals’ (MDGs) report highlights a consensus within the United Nations that the MDGs cannot be met without a diversified and productive private sector that creates wealth and employment, delivers goods and services, and adopts responsible business practices (Nelson and Prescott 2008). The growth of responsibility reporting, and the establishment of organisations such as the World Business Council for Sustainable Development (WBCSD, 2011) all promote the view from the business community that it has a role to play in international development issues. Yet critical underlying theoretical questions about the responsibilities of business, and how business responds to international development issues such as poverty alleviation, remain unanswered both within corporate social responsibility (CSR) (Prietto-Carron et al., 2006) and within wider management literature (Steidlmeier, 1993; Bruton, 2010).

Such questions are not easily answered. CSR is an arena where the difficult questions involved in business-society relationships can be explored; however the conceptual development of CSR as both an academic discipline and business practice has failed to adequately address such questions. The 1960’s and 1970’s saw growing calls for business to act responsibly and assist with social problems (Bowen, 1953; Davis, 1973; cited in Wood, 2010). This lead to a shift away from the theoretical search for corporate ‘responsibilities’, towards aspects related to ‘responsiveness’, but without the underlying scholarly specifications of the social responsibilities of business (Wood, 2010; p.52).

Similarly in the 1980’s global deregulation also acted as a catalyst for the practical adoption of CSR by multinational companies (MNCs) (Jenkins, 2005a), but without the conceptual clarification of the responsibilities of business in an international setting, particularly the global south. Special editions by International Affairs (2005), and Third World Quarterly (2007) concluded that CSR had failed to address ideological questions on the impact and meaning of CSR, and was unable to contribute to
poverty alleviation, particularly due to failures to address the non-CSR poverty impacts of business, and acts of corporate irresponsibility (Blowfield and Frynas 2005; Newell and Frynas, 2007). Specifically CSR ignores issues such as transfer pricing, tax avoidance, the abuse of market power, and the poverty impacts of business (Jenkins, 2005). Prietto-Carron et al., (2006) called for the development of a critical research agenda which examines the relationship between business and poverty reduction and the wider impacts of corporate engagement in host-country governance; and creates new ways of systematically assessing impact. Furthermore there is little empirical evidence of the positive role that CSR can play, with research often supported by anecdotal case-studies, or focusing on the analysis of codes of conduct rather than the study of their societal impacts (Frynas, 2008).

This paper argues that the five areas of Woods 1991 (and 2010) framework for measuring corporate social performance (CSP) are applicable for the development of research on the links between MNCs and poverty alleviation. Specifically it argues that the principles, processes, and outcomes and impacts (see Figure 1), contribute to the development of tools and techniques for assessing and reporting on the impacts of MNCs and poverty alleviation.

<table>
<thead>
<tr>
<th>Principles of social responsibility</th>
<th>Processes of social responsiveness</th>
<th>Outcomes and impacts of performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Institutional principle: legitimacy</td>
<td>Environmental assessment, stakeholder management, and issues management.</td>
<td>Social impacts, programmes and policies</td>
</tr>
<tr>
<td>2. Organisational principle: public responsibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Individual principle: managerial discretion</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 1: Wood’s CSP Model (Wood, 1991 and 2010).

Wood’s framework is introduced in the next section, followed by a discussion of its applicability as a framework for business-society research on MNCs in the context of poverty alleviation in a developing country. The paper concludes that Wood’s framework allows for the incorporation of critical issues in international CSR research.

This paper is concerned with the development of CSR theory as it relates to northern MNCs operating in developing countries in the global south. It is concerned with broad business-society relationships in the context of poverty alleviation, therefore it adopts a broad definition of poverty as:

‘a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.’ (UN, 2001).
This definition incorporates human well being factors which are increasingly seen as important in understanding poverty (Sumner and Tiwari, 2009), aspects of deprivation beyond low monetary income (Sen, 1999), and the human rights based approach to poverty as the violation of economic, political, social and civil rights (Barber, 2005).

A framework for business and society research

In 1991 in response to a lack of theory which systematically integrated the conceptual developments of CSR and sister concepts such as CSP, Donna J. Wood published her reconstruction of CSP literature as a framework for business and society research. Based on Wartick and Cohran’s (1985) attempt to reconcile the competing ideas of social responsiveness with economic and public responsibility, Wood defined CSP as: a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm’s societal relationships (1991, p.693). This definition formed the basis of her framework. The principles of social responsibility (institutional, organisational and individual) integrate the conceptualisations of social responsibility of Davis (1973), Preston and Post (1975), Ackerman (1975), Carroll (1979) and Sethi (1979) into a multilevel understanding of CSR which includes the expectations society places on business in its role as an economic institution, the fulfilment of public responsibilities relevant to what they are and what they do, and acts of individual managerial discretion (Wood, 1991).

The framework is intended as a tool for the identification, description and measurement of principles, processes and outcomes as they relate to a firm’s societal relationships, set within an open systems model of the firm (Wood 2010). In 2010 Wood revisited the framework, reiterating that outcomes and impacts are central to CSP research. Wood called for a shift in research from the normative assumption that corporations should do good, towards a structural and theoretical focus on hypothesis development and testing about the specific duties faced by specific types of companies (the three principles), the processes by which they respond to those duties, and the outcomes and impacts that are experienced as a result by individuals, stakeholders, society and the company itself (Wood, 2010; p.57-58). The incorporation of these into research on the relationship between MNCs and poverty alleviation are critical for developing theoretical understanding about the responsibilities and processes of response for MNCs and their role in poverty alleviation.

Principle: Institutional Legitimacy

The principle of legitimacy defines the institutional relationship between business and society as a whole, focusing on business’s obligations as a social institution. It is based on the theoretical understanding that business is not functionally independent, but interdependent with other social institutions (Preston and Post, 1975), serving the collective good (Freeman, 1984), with the
implication that society both grants legitimacy, and has available sanctions when such obligations are not met (Wood 1991). Thus it addresses MNCs and their role in poverty alleviation in the context of business as a whole, and the expectations and obligations placed upon them in relation to their wider position in society.

Poverty is increasingly conceptualized as multidimensional within development and economic theory, suggesting the existence of a principle that multiple actors, including business, have a role in addressing this issue. A move towards a multifactored approach in economic and development thinking illustrates this. In the 1980’s international financial institutions (IFI’s) promoted market oriented approaches to development based on structural adjustment, international debt repayment, and aid tied to the adoption of neoliberal market policies (Klinger, 2009). By the turn of the new millennium IFI’s had moved towards development economics based on multifactor poverty reduction strategy papers (PRSP’s) as consensus grew that market based solutions did not work without supporting policies and institutions in the external environment (Besley and Burgess, 2003). Guidelines published by the Organisation for Economic Cooperation and Development (OECD) in 2007 on the reduction of economic poverty through pro-poor growth, stressed the need for simultaneous policy development on multiple socio-cultural and political dimensions of poverty, human security, and gender equality, on the basis that economic development alone would not be sufficient (OECD, 2007; p.32-35).

There are also growing calls for the IFI’s and other global development organisations, to adopt models of development which recognise the contributions of natural and social capitals, and distinguish between poverty conceptualised as low monetary income, and real poverty in terms of low quality of life (Costanza, 2009). Most notably calls for new approaches have been raised by Collier (2008) and Easterly (2008), who cite the need for bottom up market based strategies, moving away from top down planning to systems that incorporate feedback from the poor about what does and does not work. The incorporation of both market and non-market business channels is essential in the analysis of MNC impacts at the societal level. Idemudia (2009) noted for example that the assessment of oil MNCs must include both positive socioeconomic contributions that may help reduce material deprivation, powerlessness or poor health and education, and efforts to prevent the negative impacts of oil production on host communities.

It is also essential to consider the macro-level barriers that exist at a societal level between business and the poor, and any subsequent efforts to alleviate poverty. The analysis of business-society relationships on the basis of this principle creates a space for the consideration of these issues. Inequality, both globally and within countries can create huge barriers between business and the poor. Unicef recently reported that the poorest population quintile currently receive one percent of global income (Ortiz and Cummins, 2011). This is not surprising given that markets largely respond to
profit potential and economic demand rather than need, thus investment patterns show how areas of greatest absolute poverty hold the least interest for the international market economy (Steidlmeier, 1993). Investment in Africa for example remains at levels that are inadequate for the attainment of the MDGs and for poverty reduction (Anyanwu, 2006). As Collier (2008) noted, most of the bottom billion live in countries that have experienced no growth. When conducting research on business and poverty, the relationship needs to be conceptualised in a manner which takes account of the links that do and do not exist between business and the poor.

Globalisation theory has arguably increased the extent to which links between MNCs and poverty are difficult to identify due to the existence of macro level barriers. MNCs have been shown to act as a negative force within international trade and production (Newell and Frynas, 2007), or as a positive global source of investment through levels of Foreign Direct Investment (FDI) which tend to be far higher than levels of official development assistance (Jenkins, 2005b). Yet the poor often face barriers to formal employment within international MNCs. Jenkins (2005b) case studies of horticulture in Kenya, and the textiles industry in Vietnam and South Africa, showed how the global dynamic of the value chain has very little impact on poverty. It is essential that research on MNCs and poverty eradication captures the interacting constraints of poverty that surround the poor (Nghia, 2010).

It is also important to note that at the institutional level of analysis important questions about northern values and principles versus southern principles and agendas need to be included, particularly in view of the fact that included in Wood’s institutional legitimacy principle is the notion that businesses who abuse the power society grants them will lose that power (Wood, 1991). How does civil society determine what a British owned MNC operating in Africa is responsible for in regards to poverty alleviation for example? If society grants legitimacy in the global north, this does not mean that a business will comply with the relevant ethical and legal requirements in the global south, or that the global north has either the capacity or the will to hold companies to account.

Extending Wood’s framework at the institutional level of analysis implies that business is a legitimate global actor in international efforts to tackle poverty alleviation. This means that the assessment of the role of MNCs in poverty alleviation must account for the systemic inter-related global nature of poverty and poverty reduction (Sumner and Tiwari, 2009), and explore the linkages between business and poverty alleviation beyond those aspects related to economic growth and income generation. The critical question then becomes ‘how does an MNC determine its responsibilities in terms of poverty alleviation which is multidimensional in nature, and not always linked to normal business functions?’ Wood’s principle of public responsibility addresses such questions.

**Principle: Public Responsibility**
The public responsibility principle operates at the level of the individual organisation. It derives from Preston and Post’s (1975) organisational principles that define businesses as being responsible for outcomes relating to a firm’s specialised role and their primary areas of involvement, and for outcomes relating to a firm’s secondary areas of involvement where impacts and effects are generated by its primary involvement activities (Wood, 1991). It connects the firm to a network of stakeholders, problems and issues within the larger socio-political environment of the firm, and requires a firm to examine their own unique position and determine their responsibilities; therefore CSR content is likely to vary from company to company (Wood, 1991).

Analysis at this level is critical in international CSR research where business based pressures, rather than strategic analysis of social issues and stakeholders, tend to guide decision-making (Husted and Allen, 2006). Evidence suggests that firms primarily engage in social investment for reasons related to obtaining competitive advantage, and such corporate driven objectives are often incompatible with development objectives (Frynas, 2005). The resource based view for example is more likely to address poverty when issues such as malnourishment, lack of education or lack of access to capital may reduce efficiency in business value chains, or isolate a business from consumers and labour markets (Tashman and Marano, 2010). Hence a framework that requires the examination of a firm’s unique relationships to their specific environment, calls for the assessment and development of conceptual links between business and poverty, however such links are often complex and unclear.

Jenkins (2005a) analysed the impacts of Foreign Direct Investment (FDI) on poverty using a framework which incorporated three channels of FDI: enterprise, distribution and government revenue. MNC impacts were found to be limited because MNCs rarely employ indigenous workers or produce goods for the poor, coupled with increasing difficulties for governments in securing tax revenues due to the global mobility of capital (Jenkins, 2005; p.535). The extensive Oxfam - Unilever research project on the links between Unilever Indonesia and poverty alleviation concluded that the greatest pro-poor impacts lay within mainstream operations and the supply chain (Clay, 2005). The pharmaceutical industry is an industry where the links between a firms primary and secondary involvement activities and poverty are arguably less tenuous, yet the pharmaceutical industry continues to face criticisms for failing to change the way it does business in poor countries (O’Dowd, 2007). One study found that seven out of 11 companies reported spending less than 1% of their research and development budget on either sleeping sickness, leishmaniasis, Chagas’ disease, malaria or tuberculosis (Eaton, 2001). Pressures to increase access to medicines for the poor can mean giving up intellectual property rights, and reducing prices relative to the purchasing power of those in poverty, therefore Leisinger (2005) argued that it is primarily the obligation of governments and donor agencies to fairly distribute aid and welfare services to the poor.
Issues related to business and host country governance adds further complexity to the issue of determining MNC responsibilities. Governance failures were integral in driving Shell in Nigeria to build hospitals and schools, but more recent improvements in corporate governance and transparency has lead to the Nigerian government receiving 70-80 per cent of oil revenues, though Frynas (2005) argues that it is not within the domain of CSR to address how this revenue should be used. Although the incorporation of these issues into CSR based reporting, arguably could contribute to the empowerment of civil society, which does have the right to challenge how these revenues are spent.

This public responsibility section of Wood’s framework integrates the consideration of MNC responsibilities beyond those prescribed by the business case. It also means that greater attention needs to be paid to how MNCs solve problems they have caused, and how an MNC engages in solving problems and social issues related to their operations and interests (Wood, 1991). However demonstrating causality between an individual company’s actions and a societal issue like poverty is problematic. Hence Blowfield (2007) suggests that rather than searching for ‘causality’ between an individual company’s actions and societal issues, there may be more call for companies to demonstrate their value as a business to development goals. The application of the framework outlined here to the measurement of CSR, is perhaps more likely to frame MNCs as business agents with societal and organisational responsibilities, rather than as MNCs who should also act as development agents.

**Principle: Managerial Discretion, and Processes of Responsiveness**

Wood’s *principle of managerial discretion* is even more pertinent when managers operate at the nexus of such critical and potentially unquantifiable issues. It exists at the individual level of analysis, where managers are viewed as moral actors in an organisational and societal environment that is full of choices. Managers are regarded as personally responsible, and managerial discretion cannot be deferred to rules, policies, or procedures (Wood, 1991). Arguably the development of formal social reporting, and CSR policies and procedures increases the extent to which individual responsibility can be evaded, and deferred to the existence of company policies and procedures.

Wood’s (1991) *processes of corporate responsiveness* are based on Ackerman’s (1975) characteristics of a responsive firm that monitors and assesses environmental conditions, and attends to stakeholder demands through processes of environmental assessment, stakeholder management (Freeman, 1984), and issues identification and analysis (Wartick and Cochran, 1985). The existence of responsive processes are easier to document than their impact, although Wood argued that such assessments were rare, possibly because processes within a single firm can be defensive, accommodative, or reactive depending on the issue, making it difficult to categorize the action orientation of a firm (Wood, 2010). In regards to MNCs it provides a mechanism for exploring the processes of response firms adopt.
when faced with the conflicting and competing external and internal realities of business imperatives and social development priorities.

A cursory glance at research on the impact of MNC responses to poverty alleviation through programmes arguably related to their primary and secondary areas of societal involvement reveals the extent of issues that need incorporating into the analysis of managerial discretion and internal processes of response. Factors such as adopting corporate codes on ethical labour practice, but failing to challenge the commercial practices that underpin poor labour standards (Barrientos and Smith, 2007), or engaging in community development initiatives, but failing to prevent and manage the negative impacts of core business practice on host communities (Ite, 2004; Idemudia, 2009). Partnerships that aimed to alleviate poverty through business development within the supply chain failed to meet their intended aim due to factors such as: a lack of bottom-up participation in decision-making and a lack of project monitoring and evaluation (Rein and Stott, 2009), or the failure to address issues central to poverty alleviation such as income generation or increasing community bargaining power (Vermeulen et al., 2009). Any tools or techniques designed to aid the development and monitoring of MNC impacts on poverty alleviation, need to accommodate the internal factors inherent within MNCs that have the potential to lead to the failure of any endeavour to engage in social development issues.

Research on managerial and organisational behaviour in the context of CSR and international business is covered within various areas of management research such as business ethics and corporate citizenship (Rossouw, 1994; Crane and Matten, 2007), stakeholder management (Carroll, 2004), and strategic management (Porter and Kramer, 2006), and will not be considered further in this paper, except to reiterate that Wood’s model is a multidimensional framework that relates firm performance to societal relationships, and all the elements need to be incorporated into the measurement of CSP to prevent faulty conclusions (Agie and Kelley, 2001).

**Impacts and Outcomes, Policies and Programs**

The last area of Wood’s (1991) framework addresses *policies, programs, practices and impacts* on stakeholders and society at large. The inclusion of impacts based criteria is a critical addition to earlier models of CSP, and the most important aspect in terms of what happens as a result of what corporations actually do (Wood 2010). It is concerned with the social impacts of corporate behaviour regardless of the motivations or processes by which they occur, or the outcomes of actions a firm takes to manage its social impacts (Wood, 2010). However Wood cautions that if corporate social performance becomes distinct from other business functions, then it loses its viability as a way of understanding business-society relationships, therefore the inclusion of social impacts as one component within the framework helps to avoid the improper segmentation of social and business behaviours (Wood 1991).
This final section of the framework returns to the initial problem, that of determining the actual impact of MNCs on developing countries. As yet this is largely unknown, and what is known is generally based on case studies, company reports or index ratings such as the FTSE4Good, and tends to reveal more about the business case, and the firm, rather than how CSR affects the social and environmental areas where it is meant to have an impact (Blowfield, 2007). This level of analysis goes beyond the assessment of outputs in the form of policies for example, as the existence of policies do not guarantee that ‘downstream’ outcomes will be socially responsible or desirable (Wood, 1991). Kolk et al., (2006) found that the social policies of MNCs typically considered to be “‘frontrunners’” in CSR based practice generally said very little about issues related to poverty alleviation, particularly those issues that had the largest potential to help alleviate poverty.

There are various conclusions about the wider impacts of MNCs on poverty alleviation. Maertens and Swinnen (2009) found that increased trading standards within the vegetable export chain in Senegal, lead to a growth in exports, contributing to poverty reduction through increased rural incomes. Furthermore in the horticulture industry in Senegal and in what is often described as worst case conditions (stringent rich country standards imposed on exports, the supply chain controlled by a single MNC, the exclusion of smallholder suppliers), Maertens et al., (2011) found significant positive welfare impacts through employment creation and labour market participation. An Oxfam-Unilever study aimed which aimed to identify the links between Unilever Indonesia and poverty alleviation, concluded that the greatest pro-poor impact for Unilever lay within mainstream operations and the supply chain (Clay, 2005). Leclerc (2009) found that targeted trade support between production in Ethiopia and overseas buyers lead to a rise in the standard of living, through improved access to education, earnings, savings, and trade capacity, whilst Urbach (2007) and Sofowora (2009) found that product expansion by mobile telephone companies improved income generation and overall economic efficiency amongst the poor. Targeted CSR based projects such as EDF’s rural electrification programmes brought electricity and gas services to isolated populations encouraging the development of local economic activities, but poverty reduction was only possible with external support (Wilkes, 2005). Finally research by Ite (2005) in Nigeria concluded that the primary assignment for business is wealth creation, whilst the government should represent society and ensure equitable wealth distribution. Thus factors related to international trade, employment, external project support, product development, government failure, and harmful business practices can all influence the extent to which an MNC may or may not contribute to poverty alleviation. Such issues require analysis within a framework of research that incorporates business-society relationships at the institutional and organisational level of the firm, whilst also integrating the study of internal managerial and organisational response processes, and outputs and impacts.

Conclusion
Wood’s framework incorporates issues which are critical in the development of tools and techniques for assessing the role of MNCs in poverty alleviation. At a societal level it incorporates issues within the institutional environment of an MNC such as the need for multifactored approaches to poverty alleviation, and the incorporation of macro-level issues that potentially affect an MNC’s positive and negative impacts on poverty alleviation. At an organisational level the framework incorporates the analysis of business driven agendas, difficulties in identifying and conceptualising links between an MNC and poverty alleviation, and issues such as host country governance failures, all of which are critical for developing theoretical understanding about the responsibilities and response options of MNCs. Increased understanding on managerial and organisational response processes is also vital when managers and organisations are faced with such complex and conflicting internal and external factors.

Whilst Wood has attempted to formulate a framework that is practical and managerially useful, it lacks clear and objective measures of CSP (Lee, 2008), and despite being widely cited in CSP research, actual extensions or research use of Wood’s framework is rare (Wood, 2010). Indeed Wood’s framework is all encompassing, with no defined measures, and the extent of its application to the assessment of MNCs as outlined in this paper is unclear. What is clear is that the complex nature of MNC business-society relationships, and the interests and needs of the poor in relation to MNCs is unlikely to be best served through an approach based on one-size fits all objective measures. Principles and guidelines such as the United Nations Global Compact, or the International Organisation for Standardisation's ISO 26000 standards, illustrate trends towards specified reporting and evaluation mechanisms, but as yet these tools remain unwieldy, ambiguous, and difficult to operationalise in some settings due to their foundation upon a Western rights-based perspective (Werhan, 2010). This paper argues that Wood’s framework whilst lacking defined measures, creates a mechanism for assessing the social performance of MNCs on the basis of a firms relationship to poverty at the societal, organisational and individual level, and through the analysis of its processes of response and outputs and impacts. This framework gives much needed space to questions about the extent to which business can identify and respond to its responsibilities in relation to poverty alleviation, and the extent to which such activities can be measured.

References


Easterly, W. (2006) The white man's burden : why the West's efforts to aid the rest have done so much ill and so little good, Oxford University Press, Oxford.


Klingner, D. (2009) "Reducing Poverty: Do We Have the Means to Reach This End?", *Public administration review*, vol. 69, no. 6, pp. 1178.


McPhail, K. (2008) "Contributing to sustainable development through multi-stakeholder processes: practical steps to avoid the "resource curse"", *Corporate Governance*, vol. 8, no. 4, pp. 471.


